

Challenge

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letters TO THE EDITOR

Challenge invites your comments. Address letters to
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What prosperity?

•In your November issue under the heading *Challenge Notes* you talk about the return of prosperity. What return and what prosperity? At least half of the people of the U. S. have never experienced prosperity, so how could there be a return?

GENE SMITH

Granger, Wash.

No handouts

•May I ask Mr. Silk a question? [*Reluctant Recovery*, December, 1958] Suppose the proposed 30 or 40 billion total national output is raised. What is his patient, capitalism, to do with the surplus product? I hope he does not propose to give it away to the 650 million Chinese, or to the 24 million undernourished Americans. They have no money to pay for it. Or does he propose to socialize our production and produce for use instead of for profit, as we do now?

S. DZIENGIELEWSKI

Dickson City, Pa.

Forgotten factor

•*Reluctant Recovery* [December, 1958] fails to mention the bearing of international commerce on the question. It is my impression that sub-

stantial segments of world buying power have undergone marked deterioration. At any rate, our foreign commerce is enough of a factor to have an important bearing on our rate of recovery.

RAYMOND FRIEDMAN

Chicago, Ill.

Well, can they?

•*Can Unions Raise Wages?*, asks Dr. Reder. Well, can they? After reading his article [December, 1958] four times, I still don't know. Does he? If he doesn't why expand his ignorance into five tedious pages of bad prose?

OSCAR BIRNBAUM

Minneapolis, Minn.

Shorter

•Your recent interview with Dr. Frankel of the Joint Council on Economic Education indirectly highlights the real nature of our educational problems. According to Dr. Frankel, the way to improve economic literacy is to find teachers to teach teachers to teach economics. This is one sure way to increase our teacher shortage.

RALPH MERSINGER

Long Island City, N.Y.

Medieval excitement

•“When the city existed for court, church, nobility and wealthy merchants,” according to Dr. Glazer, “it afforded an atmosphere of excitement and supported a degree of creativity; that the contemporary city . . . cannot possibly equal.” [*The Sorrow of Our Cities*, December, 1958]

Excitement for whom and creativity for what? For the workers and servants who broke their backs so that a few noble Borgias could creatively plan their mutual extermination? How exciting was life in the stinking cellars and hovels in which thousands lived so that a hundred or so could enjoy the excitement Dr. Glazer so much admires? Dr. Glazer is right in criticizing the drabness of many modern cities, but a nostalgic yearning for a fairyland Middle Ages is not the most constructive way of correcting this situation.

MARTIN MOSEL

Philadelphia, Pa.

Reality

•Your factual discussion of taxes [*Taxes in Two Perspectives*, December, 1958] is indeed helpful at a time when the reader is deluged with so many theories and discussions on the subject. Let's face reality: we are working more to maintain the same disposable income, and it's not so bad as some writers would have us think.

HOWARD LYONS

Washington, D. C.

Thoughts

•Mr. Graner's article [*Will Stocks Stay up?*, December, 1958] is one of the most thought-provoking I have read on the subject. For 15 years, economists have worried when the stock market reached “dangerous

highs” though the highs may no longer be necessarily “high” or “dangerous.” The stock market has changed with the rest of our economy; it is our thinking that must now undergo a change.

ROBERT MILLER

Boston, Mass.

Factual and interesting

•I have subscribed to CHALLENGE for over a year without being disappointed in a single issue. To my delight you have managed to awaken my family to economics. Your fortunate gift for presenting information in a manner that is at once factual and interesting has done much to disprove the notion that economics is a dismal science.

JOHN COX

Cleveland, Ohio

For whom the toll

•*The Sorrow of Our Cities* [December, 1958] has come about because they were allowed to grow too much as Topsy grew. To improve them now and to provide adequately for their future we shall have to have the advice of experts, and act on that advice. This is likely to mean some practical use of taxing power. Ways to do this are being sought and found in many of our more progressive cities today. The vast Port of New York Authority is in a strategic position to function as collector of much of the revenue that may be needed to improve metropolitan New York as a place in which to live and do business. It now collects little more than enough to maintain its bridges and tunnels and to amortize their costs. The traffic could well afford to pay more.

ARCHIBALD DOWD

Forest Hills, N.Y.

a personal note



from the editor

Aftermath of a visit from another world

■ THE RECENT VISIT to this country of Russia's Mikoyan kept attention sharply focused on foreign affairs for two solid weeks. The most significant effects of the visit, however, may well be on the domestic affairs of this country.

Mikoyan himself left us with very little, except that he may or may not be a man of good will, that there may or may not have been a very definite purpose and timing to his visit, that what he reports to the Kremlin may or may not have any influence with Big K and Co. In short, Mr. Mikoyan may or may not be one of the world's most skillful poker players.

Of one thing, however, we can be certain. Either because of Mikoyan, or in spite of him, something very salubrious, stimulating and profound happened on the American scene once we were able to see a real, live Bolshevik leader touring the U.S.A. Perhaps it was because we could observe at first hand that Russian leaders at least *look like* human beings, that they labor under human frailties as all of us do, that they have their peculiarities, pretensions and vanities as we do, that they use a Windsor knot for their neckties, just as the capitalist toilers of the U.S.A. do.

Fortified with the knowledge that the Kremlin Bolsheviks are not a race apart and can be handled with something less than a superhuman effort, Americans for the first time since the end of World War II have turned to restudying and re-evaluating the sources of their inner strength and ambitions—the things we stand for, what we believe in, what we think we need and want, and how all these can be measured in the scales of a tortuous cold war that everyone would be better off without, if only so much weren't at stake.

What I am suggesting is that a sharpening of insights is taking place and that the steady focusing of attention on Mikoyan was accompanied by a clearing of the lenses of the public mind. A legendary figure of the Kremlin, having been brought into the light of reality, was the cat-

alytic agent that reminded the American people of the real life, everyday issues involved in the cold war. Whether Mikoyan's visit was motivated by a sincere desire to encourage mutual understanding, or whether it was something else again, really doesn't matter now. Whatever his reason for coming, Mikoyan has left the American people far more acutely conscious than ever before that flexibility, imagination, understanding and knowledge of ourselves as well as of people with whom we must deal are the sum and substance of keeping the peace; or, failing that, of winning a war.

* * *

I think the American people are in an exploratory mood. Perhaps all the recent developments in space travel have a good deal to do with this; or it might be due to the fact that we have been taking it on the chin in more than one way for the past 15 years, and we are tired of it. What with the hot war being followed by an interminable period of crisis and cold war, a frightfully constant depreciation in the value of the dollar, the Korean war, rapid social and economic changes and dislocation, turmoil in the Middle and Far East—the blows have fallen incessantly. Now the time has come to say "enough is enough." There is still sufficient initiative left in a relatively free people to want to pull ourselves together and explore new approaches that will lead us out of these old and tiresome quandaries.

The millenium has not arrived, but hereafter we shall be more qualified to carry the label of world leadership that so great a proportion of the rest of the world has pinned on us. I think this was the mood that elected so many new and young men to Congress last November. The President's desire to have a Cabinet commission study inflation is in response to a growing public desire for greater monetary stability. Many other forgotten, ignored or unpleasant postwar problems will also come under scrutiny: educational standards and finance, public regulation of union funds, a restudy of local and state tax facilities, and a re-evaluation of the role of federal spending in the context of a private initiative economy. A consensus on what constitutes public responsibility in the private economic sector, and, conversely, some imaginative thinking on how private responsibility can operate for the public sector, will do much for American society during the remainder of the 20th century.

Whatever Mr. Mikoyan took back with him from his visit to the U.S.A., I hope he correctly assessed the capacity of the American people to get out of a rut when they put their minds to it.—H.B.



Challenge Notes

Trouble ahead for American exporters; the economic blueprint;
savings; discretionary income; forever laughter

■ FOR THE FIRST TIME since the end of World War II, inflation is seriously threatening our position in world trade. As long as Europe was economically weak and divided, even a depreciating U. S. dollar was rated a "hard" and "scarce" currency. In their efforts to conserve precious dollar reserves, the countries of the world set up stringent currency and trade controls designed to keep out "unnecessary" dollar imports. While it is true that countries often could not "afford" our goods, this did not affect our export trade—as long as there were no alternatives available to them.

In Western Europe, this cozy situation was already changing before the recent monetary reforms, which would never have been made in the first place if the governments of Western Europe had not felt confident of the stability of their currencies. Only France felt it necessary to devalue. Elsewhere in Europe, the

"dollar shortage" has ceased to exist.

The setting up of a Common Market and the establishment of limited convertibility means that American goods will, from now on, be in active competition with other European exporters taking advantage of the new tariff and import reductions. In this new kind of competition the American exporter will be in great danger of pricing himself out of European markets—and facing much tougher European competition in other markets as well. His ability to meet such competition will depend on our ability to control inflation at home.

The economic blueprint

With all the recent talk about the President's new budget there is one significant fact which needs to be stressed: very few people are really competent to evaluate the adequacy of a modern national budget. Even the experts generally understand only a small por-

tion of it. The rest of us can only grasp at the broad outlines—and these are often not enough for us to form an intelligent opinion.

Since the budget is the basic “economic blueprint” of democratic governments, this ignorance places a great responsibility on the shoulders of the Executive and the Legislature. Are the Executive’s estimates of revenue realistic? Do estimated expenditures correspond to the cost of proposed services? The voting public really cannot tell.

What it can do is make sure that Congress will seek an honest answer to these questions and reward such candor at the polls.

Savings: discretionary income?

Why do people save? One way to find out is to ask them. The only trouble with this approach is that the answers may conceal more than they reveal.

A recent survey of American saving habits conducted by the Inter-University Committee on Consumer Behavior is a case in point. Asked why they save, an overwhelming majority of those questioned mentioned such things as providing for their old age and for the education of their children, having enough money in case of emergency, and so on. Anyone looking at these standard answers would find little, if any, evidence of a basic change in

the saving habits of Americans.

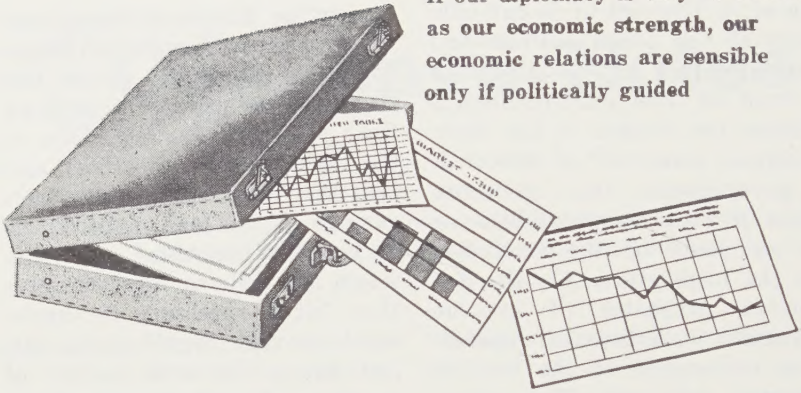
But the surveyors probed deeper and asked the same people how they expected to *use* their savings. Only one-third (mostly those in the higher-income brackets) said that they would draw upon their savings only in case of dire emergency. Another third said they would use their savings whenever they felt it necessary to supplement income. Significantly, this last group consisted mainly of young people with incomes of less than \$7,500. A middle third replied that they would use their savings for only major purchases—a house, an auto, a major appliance and so on.

Now, these answers *do* indicate that most people regard at least a portion of their savings as a form of discretionary income. In a period of inflation, the average American apparently feels that a new car in a new garage means more than money in the bank.

Forever laughter

An organization calling itself the National Laugh Foundation recently announced that it is setting up a College of Humor. The College will offer four-week courses designed to help Americans develop a sense of humor. Keeping a stiff upper lip, we are reminded of George Bernard Shaw’s saw: “those who can, do; those who can’t, teach.”—M. K.

If our diplomacy is only as effective
as our economic strength, our
economic relations are sensible
only if politically guided



THE ECONOMICS OF FOREIGN POLICY

by Hans J. Morgenthau

■ FOREIGN POLICY makes use of the total power of the nation for the defense and promotion of the national interest vis-à-vis other nations. Nine factors go into the making of national power: geography, natural resources, national morale, industrial capacity, military preparedness, population, national character, quality of diplomacy and the quality of government in general. Of these, three come under the heading of the economic factor: natural resources, industrial capacity and the quality of government. It is the government which coordinates the foreign policy pursued with the available economic resources and which brings the different claims upon these resources into balance with each other.

A nation that is self-sufficient in food has a great advantage over a nation that must import food-stuffs or starve. Thus, the power of Great Britain—and her chances of survival in times of war—has always depended on the Royal Navy's ability to keep open the sea lanes. On the other hand, nations enjoying self-sufficiency in food, such as the United States and the Soviet Union, need not divert their national energies from their primary objectives in order to assure their food supply. They have thus been able to pursue much more forceful and single-minded foreign policies.

What holds true of food is also true of those natural resources which are important for industrial production and, more particularly,

for the waging of war. With the increasing mechanization of warfare, national power has become more and more dependent upon the control of raw materials in peace and war. "One drop of oil," said Clemenceau during World War I, "is worth one drop of our soldiers' blood." It is not by accident that the two most powerful nations today, the United States and the Soviet Union, are most nearly self-sufficient in the raw materials of modern industrial production and that they control at least the access and the sources of those raw materials which they do not themselves possess.

Yet while control of raw materials is an element of national power, it is but a *potential* source of strength, if it is not transformed into industrial capacity. The technology of modern war has made industrial capacity, especially in the field of heavy industry, an indispensable element of national power. Thus the competition among nations for power transforms itself largely into competition for the production of a greater number of more effective implements of war. The quality and productive capacity of the industrial plant, the know-how of the working man, the skill of the engineer, the inventive genius of the scientist, the managerial organization—all these are factors on which the industrial capacity of

a nation and, hence, its power in international affairs depend. Thus the *great powers* are bound to be identical with the leading *industrial nations*. The spectacular rise of the Soviet Union as a world power, and the aspirations of China to equal and then surpass both the United States and the Soviet Union—these are developments in which industrial capacity play a *sine qua non* role.

It does not follow, however, that economic strength in terms of natural resources and industrial capacity is tantamount to national power. Economic strength is, as it were, the indispensable raw material out of which government must construct the edifice of national power. In order to achieve this, government must perform two different operations. First, it must bring its foreign policy into balance with its economic resources. Second, it must bring the different claims upon these resources into balance with each other.

The economic resources of all nations are limited, and consequently the means and ends of the foreign policy of all nations are limited by the amount of the available resources. A nation must estimate how far it is able to go in its relations with other nations in view of the available economic resources, and it must choose the ends and means of its foreign poli-

cy in the light of that estimate. Its task is completed only when it has wisely distributed the sum total of its economic resources among the different ends and means of its foreign policy. How much ought to be devoted to the armed forces in relation to the foreign aid commitment? How much ought to be allocated to the instruments of atomic war in proportion to conventional weapons? And how should we divide our resources between foreign economic and foreign military aid? What kind of military establishment is the national economy able to support in view of the demands the civilian population makes upon it? How many guns can the economic system provide for the nation, and how many guns and how much butter can it provide for other nations in view of the amount of butter the nation wants and needs for itself?

Triple challenge

The United States must make these decisions against the background of a triple challenge: the military challenge of the Soviet bloc, the economic challenge of the Soviet bloc and the challenge which is presented by the widening gap between the highly developed industrial nations of the West and the underdeveloped masses of Asia, Africa and Latin America.

The Soviet Union has been explicit in its resolution to prove Marx and Lenin correct in their prophecy that capitalism is doomed. While Marx and Lenin believed that disaster would result from a series of world wars fought primarily among the capitalistic nations themselves, Khrushchev has declared that capitalism will fall because of its inferiority in economic organization and productivity. As he put it to the noted newspaper columnist and author, Walter Lippmann, America enjoys "the last years of its greatness." The Soviet Union is destined to surpass the United States in economic productivity and well-being; and by demonstrating its economic superiority over the United States, it will set an example which the underdeveloped masses of the earth will want to emulate. They will choose the Soviet rather than the American way of life. Furthermore, this economic superiority will enable the Soviet Union to wage full-scale economic war against the United States by taking away its foreign markets and integrating the underdeveloped areas of the world into its economic and political system. Thus, without firing a shot, the Soviet Union will triumph over the United States.

How has the United States responded? Its diplomacy has emphasized the military threat and

the military response. Thus it has concentrated throughout the world upon strengthening the existing alliances and concluding as many new ones as possible. Foreign aid, too, has been primarily of a military nature. Only a small fraction of the resources earmarked for foreign aid has been used for economic and technical assistance. Our foreign trade policy has followed the traditional pattern: maximize exports and protect the domestic producer against foreign competition. The subordination of our foreign trade policy to the broader purposes of our political foreign policy, in terms of the challenge of the Soviet Union and of the underdeveloped nations, has been in the nature of sporadic and minor deviations from the traditional pattern.

Half-hearted and piecemeal

This response has been deficient both in its conception and in the specific policies pursued. The challenge with which the Soviet Union threatens the United States is *total*, both as to the goal to be attained and the means being employed. The Soviet Union marshals its total economic resources in order to bring about the downfall of the United States. The American response has been, for the greater part, misdirected, and for the remainder, it has been half-hearted and piecemeal.

Our diplomacy has been misdirected in its emphasis upon local military arrangements, especially outside Europe, as ends in themselves. The ability of the United States to deter Soviet aggression through its own retaliatory power is indeed the essential minimum requirement of American foreign policy. Yet the concentration upon maintaining and developing local military forces has been useless and even self-defeating, insofar as the Soviet challenge has been economic. It has done the United States no good to develop the military forces of, say, an Asian nation which lies outside the effective range of Soviet military power, but which is vulnerable to Soviet economic penetration. This misdirected military approach to what is essentially a political and economic problem also tends to distort the distribution of political and economic forces in an irrational manner; it damages the interests of the United States in that it creates political and economic tensions to be exploited by the Soviet Union.

Different weaknesses

If our military approach is defective, our foreign aid policies suffer from different but no less serious weaknesses. We have not developed a coherent foreign aid policy, subordinating the concrete measures taken in the field of for-

eign aid to the objectives of both our over-all and local political policies and coordinating them with the measures taken in other fields. What is the over-all purpose of our foreign aid? To keep our allies on our side and acquire new ones? To protect uncommitted nations from communism? Or to satisfy the so-called "revolution of rising expectations," which is supposed to sweep Asia, Africa and Latin America? Is it true that all the nations which ask us for aid need it and can use it? To what extent is foreign aid really in the nature of a bribe to foreign governments? And to what extent does it perform the politically useful function of the traditional subsidies that were common in the 18th century, especially in British foreign policy? To what extent does it have the function of a stimulus to genuine economic development?

Empirical answers

A rational foreign aid policy requires empirical answers to these and similar questions. It is the measure of the irrationality of our foreign aid policy that the answers have largely been derived from unexamined popular assumptions of doubtful validity. We have preferred to allocate foreign aid by impulse rather than base it upon a carefully thought-out philosophy which has stood the test of experience.

Our policy of foreign trade shows in still another way the obsolescence of our foreign economic policy. Ideally, foreign trade is carried on by private enterprises for the purpose of private gain. Actually, however, governments have time and again endeavored to use foreign aid as an instrument of national policy. So-called dollar diplomacy is a case in point. It is not true, even though it is widely believed, that private enterprise used the government to further private foreign commercial ventures. Quite to the contrary, the government used private enterprise abroad for the purposes of United States foreign policy. Today, the need for such use has become overwhelming in view of the Communist challenge. Yet the government, shackled by ancient shibboleths and sectional domestic interests, has not dared to develop a policy which would make foreign trade a potent instrument of American foreign policy.

Two deficiencies

Our foreign economic policy in all its manifestations is deficient in two major and related respects. First, it is in good measure divorced both in conception and execution from the purposes and operations of our political foreign policy. We still regard foreign economic policy, as we did military policy, as a self-sufficient techni-

cal entity following its own course according to its own laws, quite independent of extraneous political considerations. Second, hardly anything in our foreign economic policy reflects the total character of the challenge with which the Communist world and the underdeveloped masses confront us. We are not unaware of the existence of that challenge, but we act upon it as though it could be successfully met through a relatively minor effort, with our domestic economic business being carried on as usual. Yet the truth of the matter is that the Soviet bloc subordinates its economic life completely to the purposes of its foreign policy. Are we rich and powerful enough to withstand this total effort, let alone to win out in competition with it, by making only minor and haphazard efforts in response to it? The answer implicit in our foreign economic policy is in the affirmative. Yet it is virtually certain that this is *not* the right answer.

Economic weapon

A sound foreign economic policy must use economic resources as a weapon with which the political interests of the United States are to be defended in competition with the Soviet bloc. In terms of organization, this means that the weapon must be in the hands of the political leaders to be used for po-

litical purposes, not in the hands of the economic experts to be used for narrow technical ends.

In terms of substance, this means two things. It means that we must apply a political standard both to the purposes and the methods of our foreign aid; that we must spend more for foreign aid where our political purposes seem to require it, and less or nothing where our political goals can be served otherwise. And it means first of all that everywhere and, more particularly, in the field of foreign trade, the public interest in the survival and the safety of the United States must take precedence over private gain.

It would be an illusion to believe that these general principles can be applied to the concrete issues of our foreign economic policy without drastic changes in our domestic economic system, or that these changes will not narrow the freedom of private choice. These changes will not be the result of ideological preference, nor can ideological preference be allowed to stand in their way. Faced with an all-out economic challenge to our very existence, we shall have to sacrifice much that is important and much that in the past appeared to us even essential. We must do it for the sake of something that is more important than any other consideration: the survival of the nation itself. ■

the home front— still untouched?



by Arthur Smithies

We need to spend more for foreign policy—but contrary to the pessimists, we can afford it

■ BECAUSE OF the cold war, the United States devotes more than half of its federal budget and about 10 per cent of the national product to military defense and aid to its allies abroad. Furthermore, there is no likelihood that these proportions will be reduced for the indefinite future. These facts cannot fail to have important effects on domestic policy.

The consequence most prominent in the minds of many is that we are committed to what would have once been regarded as taxation at wartime rates. General tax reduction so confidently hoped for after the war is unlikely to be feasible or desirable. In that connection, it is fortunate that the effort to reduce taxes last year as an antidepression measure did not succeed. The taxes will be needed

for the long pull; and reductions, even if undertaken on a temporary basis, are notoriously hard to restore. To achieve a tax increase usually requires the kind of national crisis our foreign policy is designed to avert. Politicians with their eyes fixed on the next election do not give high priority to the needs of the Treasury.

A second major consequence of postwar foreign policy is that the American economy has tended toward inflation despite high taxes and occasional recessions. We undertook the Marshall Plan, for instance, at a time when domestic demand was running well ahead of domestic supply—not, as has been alleged, because the economy needed the support of “imperialist” excursions. Likewise, the Korean war was supported by an economy

already close to full employment. Increasing demand, supported by foreign policy requirements, provided conditions favorable to the "wage-price spiral" which now seems to have gained a momentum of its own.

The tendency toward inflation has produced a sharp reversal of the central monetary policies to which we had grown accustomed during the Thirties and the World War II period. Hard money, rather than cheap money, is the present Federal Reserve policy. But this is a subject of bitter controversy. The critics allege that if it cures inflation at all, it will do so only by the sacrifice of other objectives of policy, notably full employment and an increasing rate of growth. There is merit to this argument, and to do justice to all our policy objectives we may have to resort to credit control measures that are more deliberately selective than the traditional general restriction of the money supply. But an adequate solution to the inflation problem may carry the government further afield than that. If the problem is to be solved at all, the wage-price spiral may have to be attacked directly, however uncongenial that may be.

While the need to support foreign policy has contributed to inflation, foreign policy is being endangered as a result of continuing inflation. Since the country

is evidently not prepared to increase taxes, the defense budget has been dangerously cut in the effort to halt inflation. This has meant increased reliance on strategic weapons and a reduced capacity to meet limited threats on a limited basis. It has also meant that foreign economic aid, which is essential to prevent the defection of large parts of Asia to communism, has been provided on a basis that is far from adequate.

Defense, however, is not the only sufferer from inflation. In order to hold down government expenditures we are allowing education to deteriorate and city slums to become a national scandal. The traditional values of the United States and pride in its universal system of education should demand that an increasing fraction of the national income be devoted to education. But for the overriding foreign policy needs, education, slum clearance and other social programs would have undoubtedly been better provided for.

A further effect of foreign policy on domestic has been that the forces of protectionism have been held at bay, but only with the utmost difficulty. We have seen the extraordinary and welcome spectacle of a Secretary of Commerce, an ardent protectionist all his life, proclaiming the necessity of extension of the Trade Agreements Act. Our liberal tariff policy re-

sulted from the zeal, the conviction and the personality of Cordell Hull. But now, 25 years later, a national awareness that the Western alliance would be endangered by high American tariffs is needed to withstand the pressure of organized groups in which no such awareness apparently exists.

Impressive efforts

In terms of the past performance of democracies and the current performance of other democracies, the United States is making impressive efforts to adjust its internal policies to foreign policy needs. We are doing much more relatively, as well as absolutely, than our allies in Western Europe. We are also doing considerably more than Canada and Australia who are in as good an economic position as the United States to devote 10 per cent of their national income to the common defense. But from another point of view our performance looks less impressive.

If we could take defense and foreign aid out of the statistics and record only the goods and services available for private consumption over the postwar period; and if we ignored taxes and only recorded income after taxes, the result would be a picture of incredible peacetime prosperity. The picture becomes even more vivid if one looks not at aired statistics

but at the houses, the office buildings, the cars, the thruways, the television sets and the supermarkets of the postwar period. In fact these are what the foreign visitor does look at, and they are the things from which he draws his own conclusions. With such abundance an undeniable fact, our foreign policy efforts cannot seriously be described as sacrifice. In terms of providing mass-produced goods for mass production, the American economy has performed at a rate that would have been inconceivable in the Twenties, which not long ago was regarded as a fabulous period. From that point of view, one could say that the effects of foreign policy on domestic policy have been negligible.

The same impression is given by nondefense government programs. While education may be laggard, support for agriculture is not. For reasons that can only be understood in terms of domestic politics, we continue to spend billions on agricultural commodities that we cannot consume at home and can hardly give away abroad. Through its extension to nonservice connected cases and dependents, the veterans program provides medical and hospital care to a large segment of the population. Other health programs are under way, and expenditures on civil public works can be expected to expand. The Post Office continues

to flood the country with subsidized third-class mail. Nondefense government activities have not expanded as rapidly as some would like, but it was not foreign policy requirements that were responsible for any curtailments in important government activities.

On balance, one must conclude that United States foreign policy has been conducted very largely on a basis of business as usual and politics as usual at home. But what of the future, faced as we are by antagonists whose concept of business as usual is very different from that of democratic capitalism? Can we hold our own in the cold war without profound changes in domestic policy?

The rates of growth achieved in Russia and Communist China raise that question in emphatic form. Can we compete if we grow at three or four per cent while they grow at seven or eight per cent per year? Must we have a gross national product race as well as an armaments race? If so, must we reconsider details of domestic policy and perhaps make far-reaching changes in the economic structure as well?

Absolute amounts

I do not believe such extreme measures are called for. After all, our competition with the Russians depends on the absolute amounts we can devote to foreign policy,

not on the rate at which we grow. The fact is that four-per-cent growth in the United States means greater absolute amounts year by year than seven per cent in Russia. But that is of little import unless we are prepared to devote a sufficient part of the increment to foreign policy purposes. We can derive no complacency from an expanding economy if the fruits of the expansion simply go to the provision of consumers with houses, automobiles and washing machines.

As a result of its rapid growth, Russia is gaining the capacity to wage not only military warfare but also economic warfare. It can use its resources to provide capital to underdeveloped countries; it can use its trained manpower to provide technical assistance that is needed as much as money in many instances. Furthermore, it can use its economic position to dislocate trade for political purposes. In contrast to the situation a few years ago, it can now afford to buy Egyptian cotton it may not want or to refuse delivery of Finnish ships that it may want.

There is evidence everywhere that the cold war is being intensified. We are still living on some of the benefits of the monopoly of atomic weapons we once possessed. We still await the consequences of Russia's nuclear power. But we may have to face a new kind of di-

plomacy where the threat, not of all-out war, but of limited use of nuclear missiles is an ominous postscript to the diplomatic note. Can such threats be neutralized by any means except the possession of force that can be applied in all the critical areas of the world?

It would be highly imprudent for this country to assume that it can live through the next decade in the same comfortable manner as we have lived through the last—with the claims of foreign policy persistently giving way to those of domestic convenience. Some competent observers believe that the claims on our resources will be so severe that we can no longer afford the market system, but must resort to a controlled, mobilization economy.

Great disadvantages

That possibility cannot be dismissed. If, for instance, national security demands a general shelter program, as recommended by the Gaither Committee, the construction industry at least would have to be controlled directly for a number of years. But there would be great disadvantages in resorting to a controlled economy until the need becomes imperative.

After all, from the ideological standpoint, we are trying to demonstrate to the world that a free economy can muster the strength and resolution to provide for its

own security as well as to achieve its traditional objectives of widespread economic improvement.

Apart from possibilities such as a shelter program which would place severe strains on the resources of particular industries, I see no reason why the market system should not work even if national security expenditures amounted to 20, rather than 10 per cent of the national product. But to make it work under such circumstances would involve marked changes in present policies. A large tax increase would undoubtedly be required, and the burden would have to fall on the masses of the population. Equity would demand that special tax privileges be eliminated. On the other hand, special tax incentives may be needed to encourage investment and expansion in lines of production of particular importance. Credit controls to discourage expenditures on consumer durables would be in order; and the credit privileges now accorded to housing and agriculture may have to be removed. Finally, nonessential government expenditures would have to be curtailed.

Such measures would seem drastic and harsh, but if adopted with determination, they would leave the structure of the economy and our society unimpaired. In fact, some austerity might do us a little good.

The United States should be prepared to contemplate assigning 20 per cent of the national product to national security—that is, about twice as much as we are currently spending. Actually, a good deal less than that may be sufficient.

In the first place, if the cold war is to be won, it must be won by the collective effort of the West, rather than by the United States alone. If our allies do not have the will to defend themselves, our own efforts are likely to be fruitless. Western Europe and the British Commonwealth together possess an economic capacity at least equal to that of the United States. They can pay for their own military defense and also join with the United States in promoting the development of the uncommitted countries.

Secondly, considerable economies should be possible in our own military defense. The military, like all other organizations, tend to continue programs and practices after they have outlived their usefulness. I am sure we have not yet devised methods of planning research and development and negotiating contracts that can really be described as efficient. But as matters now stand,

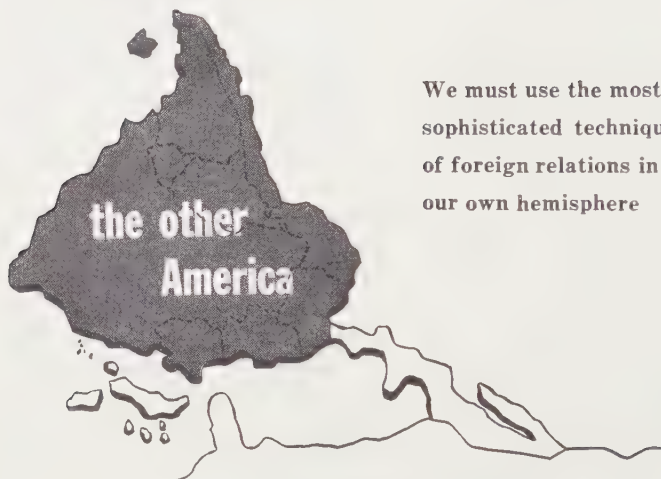
efforts by the Congress or the President to achieve efficiency frequently lead to cuts in military strength that we badly need.

Thirdly, however much we desire to extend aid to the underdeveloped countries, there is a limit to the rate at which capital can be effectively invested in them—a limit imposed by their need to acquire the administrative and technical skills that must accompany capital investment. Much more needs to be done than is now being done—but the total in any one year that is feasible is modest in relation to the resources of the West.

The United States and its allies are not at present making even the modest effort that is clearly needed. Modest though the amount needed may be in relation to our total resources, a profound change in political attitude will be required to achieve the desired results. The chief dangers lie in not facing the facts. To allow foreign policy to weaken for the sake of domestic policies—as usual—is courting disaster from abroad. To attempt to provide for security in the belief that painful changes in domestic policy are not needed may lead to a degree of inflation that would indeed be dangerous. ■

Milk Pipeline

THE WORLD'S first major milk pipeline has been constructed near Trento in the Italian Alps. The four-mile pipe carries milk from Alpine dairies to a cheese factory 2,000 feet below.



We must use the most
sophisticated techniques
of foreign relations in
our own hemisphere

by George I. Blanksten

■ DURING THE last half-century, the policies of the United States toward revolutionary and reform governments in other countries have undergone a significant change. Time was when we remembered the nature of our own political origins and welcomed foreign upheavals as new American revolutions.

In his recent book, *Mexico and the United States*, Howard F. Cline has advanced the intriguing thesis that the Mexican Revolution of 1910 was primarily responsible for the emergence of a new U.S. attitude toward revolutions. It was our first major experience in being cast as the *villain*. We were the foreign imperialists in league with the overthrown dictator; we were the foreign invad-

ers against whom the revolutionary heroes struggled.

Since its Mexican trauma, the United States has tended to regard foreign revolutions not as new American revolutions, but rather as new Mexican revolutions. In former times we expected to enjoy a friendly community of interests with new revolutionary regimes; today we are predisposed to undergo difficult and sometimes hostile dealings.

In Latin America, where revolutions are frequent, this position is becoming increasingly untenable. We should not shrink from the proposition that it might be possible to say something in defense of reform—and even revolution—in an area embracing countries with feudal-like systems of

land tenure. Less than two per cent of a nation's population may own more than 75 per cent of its land surface. Many of these are nations with rigid class systems which disenfranchise, in some cases, more than half of their populations. Democracy struggles against rigid church-state relations and the overgrown power of the military. It is conceivable that revolutions might bring useful reforms.

Yet Washington's post-Mexican policy has brought the United States into increasing opposition to revolutionary and reform governments in a Latin America which needs the reforms, if not the revolutions. We have opposed governments dedicated to land reform, changes in a feudalistic class structure, separation of church and state, and the dismantling of military dictatorship.

The grotesque image of a United States opposed to such programs stands today as a major problem in its Latin American policy. A few exceptions like the case of Bolivia have occurred. In 1952, a revolutionary party seized power and then nationalized the tin mines, instituted an agrarian reform program, attempted to implement labor reforms and tried to achieve a "new"—that is, less political—army. Normally opposed to such governments, the United States has cooperated with the ad-

ministrations of Bolivian Presidents Victor Paz Estenssoro (1952-56) and Hernán Siles Zuazo (1956-). This experimental departure in foreign policy suggests that a few more departures may be worth considering.

Revolutions—the word is loosely used—occur frequently in Latin America. Indeed, a calendar year is not unusual in which the United States government must decide whether to extend diplomatic recognition to as many as four revolutionary regimes. Should we recognize all? Should we deal with some but deny recognition to others? Or should we withhold diplomatic recognition from all?

It is not easy to devise a recognition policy which can be applied successfully and consistently. Thomas Jefferson, the first U. S. President to cope with this problem, was prone to regard such regimes as the products of new American revolutions; he freely extended diplomatic recognition.

President Woodrow Wilson—whose chief problem in this field involved the Mexican Revolution—developed a different policy. Much interested in constitutional government, he was determined to recognize only those regimes which could demonstrate that they were legitimate, constitutional successors. The bulk of the Latin American revolutionary governments could not meet this test, and our

relations with many of them were quite difficult during the Wilsonian period. The Wilson policy was as rigid as it was unrealistic; constitutional legitimacy in feudalistic countries depended on chance and clever maneuvering behind a legalistic facade.

Since World War II, Washington has been applying a new recognition policy, the "Byrnes formula," developed during James F. Byrnes' period as Secretary of State. The formula emphasizes that U. S. recognition of a government does not imply endorsement. The United States will deal with any Latin American government that can prove it is actually in power and that promises to honor its international obligations.

Variety of situations

Given the wide variety of Latin American situations, the Byrnes formula can be applied consistently to a greater number of cases than either the Jeffersonian or Wilsonian approaches. Successful use of the formula, however, demands full implementation of all of its parts. Since World War II, it has been difficult to convince many Latin Americans that the United States is faithfully doing that.

Thus, the United States could recognize the military dictatorships of Gen. Manuel Odria in Peru (1948-56) and Gen. Marcos Pérez Jiménez (1950-58) in Vene-

zuela without committing itself to endorsement of such regimes. But, when this action was followed by President Eisenhower's award of medals to Generals Odria and Pérez Jiménez, many Latin Americans construed these honors as expressions of U.S. support of military dictatorship. Similar deviations from the Byrnes formula have contributed to a portrayal of the United States as a friend of dictatorship and reaction. One result was the reception of Vice President Nixon in Peru and Venezuela. He was stoned and spat upon at Caracas as a friend of a military regime overthrown by freedom-loving Venezuelans.

The Nixon episode is also an illustration of a defect in the communication of U. S. foreign policy objectives to Latin Americans. This defect, becoming increasingly serious since World War II, has taken a curious form. The United States has been fairly effective in informing Latin America of the negative aspects of Washington's policy—*what it is against*, but has failed to communicate the positive side of that policy—*what it is for*.

Take the Guatemalan case. When Colonel Jacobo Arbenz was president (1951-54), Communists actively supported his government, which fell into difficult relations with the United States. Washington took an active part in the violent overthrow of Arbenz and in

the selection of his successor, Colonel Carlos Castillo Armas (1954-57). This affair left little doubt in Latin America on the negative aspects of United States policy—we were clearly against the Soviet Union, the Communists and Arbenz. But what were we for? On this vital question, the United States has been strangely and seriously silent, not only in Guatemala but elsewhere.

Relationship and interplay

Confusion in the United States on two types of issues involving foreign aid further aggravates this country's relations with the 20 independent states of Latin America. We tend to forget that each has its own foreign policy, set of national ambitions and peculiar problems in its relations with the United States. The first of these issues has to do with the relationships among various types of foreign aid programs; the second is the question of interplay of capital and technology in meeting the difficult problems of the underdeveloped economies.

The United States today participates in three major types of foreign aid programs: military assistance; economic aid, sometimes called defense support; and a third program variously called technical assistance, "Point Four" and technical cooperation. The military and defense support pro-

grams of the United States are small and relatively unimportant in Latin America, but the area constitutes a major test of the technical assistance concept.

These three types of programs have often been confused with each other in our thinking. All three are "foreign aid," and have often been listed in the same annual appropriations bill. At periods all three have been administered through the same government agency. While the confusion can be explained, it cannot be justified. The three differ fundamentally in conception and objectives. Peculiarly, children of the "cold war," military assistance and defense support are essentially political and short range. On the other hand, technical assistance—born in Latin America in 1942 and later extended to other areas of the world—is designed to stimulate underdeveloped regions. Thus, technical assistance is primarily economic, nonpolitical and long range.

Confusion of the three hinders the operation of each. Our chief lesson came during 1953-55, when one agency, the Foreign Operations Administration (FOA), attempted to administer all three programs. The result was little short of catastrophic. As over 95 per cent of the FOA budget was devoted to military assistance and defense support, the development

of a corresponding pattern of administrative emphasis was perhaps inevitable. Economic development programs were distorted to fit political objectives; "cold war" security clearances became prerequisites for the solution of the agricultural, medical and educational problems of the underdeveloped areas. Enemies of the United States, seeking to impugn our motives, found ample ammunition in our own confusion.

Today this situation is considerably, but not entirely, improved. In a reorganization in 1955 and 1956, the FOA was abolished, its political programs were administratively separated from the economic, and the technical assistance programs were entrusted to the newly created International Cooperation Administration (ICA), which does not handle the military and defense support activities directly. This was a tremendous improvement, but the ICA is today part of the Department of State. One may well question whether a fundamentally economic and non-political program should properly be administered through an agency whose chief function involves the making of political decisions in international affairs.

The second issue in the foreign aid field involves the relationship between capital and technology in meeting the problems of the underdeveloped economies of Latin

America. An underdeveloped economy may be defined as one where the level of production falls significantly short of the promise of the existing resource potential.

A given amount of technology applied in an underdeveloped country will not produce the same results as in a modern economy. Yet our ICA programs are based on the assumption that the problem of technical assistance is exclusively technological. We have not yet developed an understanding of the optimal relationship between capital formation and technological change.

Corrective courses

Some corrective courses seem clear. Many—not all, but many—of the Latin American countries have underdeveloped economies. Since 1942 it has been U. S. public policy to contribute to the economic development of those regions. The general formula—technical assistance—is a correct one. But its implementation has been vitiated by our tendency to confuse this long-range economic formula with short-range political ones. The recent creation of the ICA, separating the economic from the political programs, is a major step in the right direction. But as long as the ICA remains within an agency devoted primarily to the making of short-range political decisions, further steps should be taken to

strengthen our role in the economic development of the Americas. These may well take the form of the eventual separation of the ICA from the State Department and the establishment of an independent agency concerned primarily with long-range, nonpolitical economic development.

In the political field, we have been the victim of stereotypes—seeing revolutions in terms of the American, Mexican or, possibly, Russian revolutions. All are inaccurate. If Washington could bring itself to take a broader view of revolutions, the result might well be a deeper understanding of the nature of political instability in the Americas. This does not mean tolerating Communist interference, but we should judge Latin American events in their own context. If we are indeed committed to contributing to the economic and political development of the area, we may come to see that some Latin American revolutionary and reform governments might also contribute to this growth. Having taken that step, we may well come to cooperate with some of those governments on a more

solid basis than that of an experimental departure.

Given the best of intentions, the formulation of a workable and consistent recognition policy has historically been a difficult problem. Perhaps it is true that no consistently workable formula exists in this field. At any rate, it would appear that the Byrnes formula, *if strictly applied*, is more workable than earlier U. S. approaches. It would mean accepting the idea that recognition does not imply approval or endorsement. It should reduce the number of instances in which the United States finds itself acting as a friend of an unpopular regime.

Finally, it is imperative that this country devote greater effort to communicating the positive content of its foreign policy to the people of Latin America. Obviously, it is not enough to communicate the negative side alone. Every day that passes with this disproportionate emphasis on negatives is an additional day of deterioration, not only in the relations, but also in the sympathies between the United States and Latin America. ■

Problem in the Middle East

POPULATION in the Middle East is increasing at the rate of four million a year—enough to populate a city the size of Chicago. In Saudi Arabia, population has reached a density of more than 3,000 per square mile. In the U.S., population density is only 239 per square mile. By 1975, the increase in population in the Middle East will be 63 per cent, compared with a 31-per-cent increase in the U.S.



by Richard N. Gardner

■ TWO RECENT EVENTS have focused attention on our foreign economic policy toward Western Europe. One was the first round of tariff cuts between the six participating countries of the Common Market which went into effect at the beginning of this year. The second was the recent breakdown in negotiations to unite Britain, the Common Market participants and other European countries in a wider association called the Free Trade Area.

What has been our foreign economic policy toward this part of the world? What should it be in the future?

Ten years ago the answer to these questions seemed reasonably clear. World War II had left the European countries in desperate economic circumstances. It had destroyed a large part of their

physical assets and disrupted their normal trading patterns. We recognized in Europe's economic weakness a grave threat to our national interest. We responded with the Marshall Plan, the greatest peacetime program of economic assistance ever promulgated.

The Marshall Plan was more than a program of economic assistance. It involved a significant shift in our foreign economic policy. Hitherto that policy had emphasized the creation of a "one-world" trading system. With the Marshall Plan, we encouraged economic integration on a regional basis, at least as far as Western Europe was concerned.

The success of Marshall Plan aid in promoting European recovery is no longer open to question. But we are becoming concerned about the latest develop-

ments in European integration and its consequences to ourselves and the rest of the free world.

The first big step toward European integration was taken with the establishment of the Organization for European Economic Cooperation, set up to assure effective use of Marshall Plan aid. The OEEC removed quantitative restrictions on intra-European trade. It also cleared exchange restrictions through the European Payments Union.

The next step was the formation of the European Coal and Steel Community, which went beyond OEEC by seeking complete free trade in one economic sector, coal and steel. It provided institutions with certain "supranational powers" to promote that objective.

The movement toward European integration reached a climax with the establishment of the European Economic Community (Common Market)—joining France, Germany, Italy, Belgium, Luxembourg and the Netherlands. Under the Common Market these six countries will, by stages over a span of 12 to 15 years, eliminate tariffs and quantitative restrictions on all trade among themselves and establish a common tariff and commercial policy toward the outside world.

The participants in the Common Market are also pledged to elim-

inate restrictions on the movement of labor and capital, harmonize their economic and social legislation, prohibit restrictive business practices and establish common institutions to implement these objectives. The institutions are similar to those of the Coal and Steel Community—a Council of Ministers, a Commission, an Assembly and a Court of Justice.

If the Common Market lives up to expectations, both the participants and the rest of the free world can look forward to certain benefits. As progress is made toward free trade among the six countries, they will make more efficient use of their resources. They will result from the stimulus of greater competition, from economies of larger-scale operation and from specialization in production according to comparative advantage. The Common Market countries will then enjoy higher living standards. They will have less need for outside aid. They will be better trading partners and stronger allies.

The political benefits of the Common Market could be particularly significant. The growing economic strength of the participating countries would enable them to assume greater military commitments in NATO and greater responsibilities for the development of their overseas territories.

It would strengthen them against internal Communist subversion. Indeed, it might enable the Common Market to serve as a counterweight to the rapidly growing power of Communist China.

But these results cannot be regarded as inevitable. The Common Market could turn out to be more "trade diverting" than "trade creating"; it could do more to give the participating countries shelter markets against the outside world than to promote a better use of resources between them. This would be the case if it pursued protectionist policies toward the outside world, or if it broke down under political pressures before reaching the stage of internal free trade, and became instead a system of preferences for inefficient European producers. In this event, it would retard rather than accelerate the rise in living standards of the free world as a whole.

Economic impact

The same point must be made on the political side. Instead of becoming a stronger element in the Western alliance, the Common Market group might become a "third force" between the two great power blocs. This would destroy NATO and undermine the foundation of our national security.

The economic impact of the Common Market is already creat-

ing serious problems. The first Common Market tariff cuts have already taken effect. The gradual elimination of trade barriers among the six, coupled with the maintenance of a common tariff against the outside world, will place U.S. exporters at an increasing disadvantage vis-à-vis their competitors within the area.

Our businessmen will feel the commercial impact of the Common Market not only in their trade with the participating countries but in their trade with "outside" countries. As European producers become more efficient, they will be more formidable competitors in other West European markets and in the markets of Latin America, the Middle East and Asia. Furthermore, the greater bargaining power of the Common Market countries, following from their economic unification, will enable them to gain new commercial advantages for their businessmen through trade agreements with other countries.

Another immediate problem concerns the European countries of OEEC who are not participating in the Common Market, particularly the United Kingdom. The United States has a special interest in preserving Britain's economic strength, not only because Britain is our closest ally and a major trading partner, but because Britain is a central element in the

entire free world trading system.

The critical economic position of Britain derives in part from her role as banker for the Sterling Area, one of the two great financial systems of the non-Communist world. The Sterling Area has a population of 700 million and accounts for nearly one-half of non-Communist world trade. As its banker, Britain is obliged to maintain a large measure of free trade and payments with these countries and offer them liberal credit facilities.

Britain has the additional responsibility of maintaining the convertibility of sterling into dollars. Convertibility in this sense means, for example, that the sterling proceeds of French exports to Britain can be used to pay for French imports from the United States. Without this convertibility, American exporters would suffer, many of our trading partners would be cut off from dollar sources of supply, and the free world as a whole would be thrust back on a less-efficient system of trade.

The achievement of our foreign policy objectives requires that Britain continue to perform its functions as banker for the Sterling Area and defender of convertibility. Any development which threatens Britain's capacity to perform these functions should be a subject of our concern.

The development of the Common Market poses a new challenge for the United Kingdom. Britain is at once a world power and a European power. Its position as a world power is emphasized on the political side by its membership in a Commonwealth of independent countries and colonies which recognize a common sovereign. It is emphasized on the economic side by the Sterling Area and the imperial preference system.

British dilemma

At the same time, the United Kingdom has close ties with the European continent. On the political side, failure to associate itself with the Common Market means failure to become part of a new and powerful unit in world affairs. On the economic side, it means acceptance of a position outside the tariff wall of a rapidly growing European market.

The British proposal for a Free Trade Area was an attempt to resolve Britain's dilemma. The parties to this arrangement would undertake one of the obligations of the Common Market—the establishment of free trade—but would maintain their separate tariff regimes with respect to the outside world. Moreover, as originally proposed by Britain, there would not even be free trade in agriculture. Finally, the Free Trade Area members would not be committed to

the ambitious coordination of general economic and social policy—nor the ultimate objective of political union—provided for in the Common Market.

All of these features of the Free Trade Area were designed to permit Britain to continue her political and economic relationship with the Commonwealth. But the same features made the plan unacceptable to the Common Market countries. France in particular was unwilling to give Britain a free entry into the continental market in return for “free trade” concessions from Britain which did not apply to agriculture and which were already enjoyed in large part by Commonwealth producers. From the point of view of France, the Free Trade Area had the further limitation of involving no political commitment and no British contribution to the Investment Bank and Social Fund designed to assist the shift of resources within the Common Market.

How can our foreign economic policy help resolve these problems? Obviously we possess but limited power to set Europe’s future. But there are certain things we can do to influence developments in accordance with our own interests and those of the free world as a whole.

We should seek to lower the common external tariff of the Common Market countries through

tariff bargaining under our reciprocal trade agreements program. Although the latest renewal of this program provides the President with some additional tariff-cutting powers, they are hedged with serious exceptions. The program should be greatly strengthened in order to give us the opportunity to “bargain down” the tariff walls of the Common Market and thus reduce discrimination against the export trade of the United States and other countries.

Strength for GATT

We should strengthen the General Agreement on Tariffs and Trade. This is the best institution available to influence the development of regional blocs in a manner consistent with the interests of the entire free world. GATT provides a set of trade rules designed to insure this result and the procedures by which these rules can be made effective. The best way to strengthen GATT would be for the U.S. Congress to authorize our participation in the Organization for Trade Cooperation.

We should help the Common Market countries make the painful shifts of resources involved in their movement toward free trade. One way to do this would be to give financial support to the Common Market Investment Bank and Social Fund, designed to facilitate

the movement of labor and capital.

We should make our good offices available to help resolve the Free Trade Area controversy and avoid an economic division of Western Europe.

We should lead in the early establishment of an International Development Authority to finance the economic development of underdeveloped countries on easier terms than are presently available. Such an institution could draw on part of the increase in Western Europe's income resulting from regional integration. It could bind Europe and the United States together in a continuing effort of immense importance to the prosperity and security of the entire free world.

Finally, we should act speedily on the proposal to double the national quotas in the International Monetary Fund. These quotas presently stand at about \$9 billion. The idea to increase them was first put forward by the U.S. government in August, 1958 and has been approved by the Fund's Executive Directors and Board of Governors.

Vulnerable to crises

To increase the resources of the IMF may seem a strange thing to do at a time of general prosperity when Western European countries have substantially increased their foreign exchange reserves. But

these countries remain peculiarly vulnerable to exchange crises. Only two years ago, for example, they had to borrow heavily from the Fund when the interruption of oil supplies from the Middle East forced them to make heavy purchases in the Western hemisphere.

This could happen again. Western Europe might also be placed in difficulty by a steep rise in the prices of its raw material imports relative to the prices of its industrial exports. And a future recession might have results much less favorable than the recent one on Western Europe's balance of payments.

The recent move toward limited convertibility of the major European currencies represents an important victory in the uphill fight toward freer trade and payments. But let us remember that we still have a long way to go before all trade restrictions in Europe are removed.

Recent successes should not make us complacent. Let us not follow the example of the character in the *Arkansas Traveller* who could see no reason for mending his leaky roof on a sunny day. We should act now, when the weather is fair, to protect the gains we have made, and lay the foundation for further progress in trade liberalization—not only within Western Europe, but within the entire free world. ■



African promise

The world must begin to accept
the fact that the African
peoples propose to manage
their own destiny

by L. Gray Cowan

■ UNTIL VERY RECENTLY American policy decisions concerning African territories were taken in the context of our relations with the colonial powers of Europe. We did not inquire too deeply about the reactions of the Africans themselves. But with the appearance of independent African states, our policy must now deal directly with the views of the African leaders. We are obliged to re-evaluate our policies in specific African terms.

Perhaps the most fundamental lesson to be learned from the last three years of political ferment in Africa is that there can no longer be one American policy for the continent. In the past, State Department officials talked about American objectives in Africa on-

ly in continent-wide generalities. This approach may have been advisable while we were dealing with African problems essentially at second hand. Today divergent African interests growing out of the movement toward independence require not only regional differentiations in American diplomacy, but also specific policies for specific countries.

This is not to deny that our policy-making should be governed by certain general principles. As in other parts of the world, we are interested in seeing the creation in Africa of stable, democratic governments and viable economies. But we must be aware that stability and democracy do not necessarily go hand in hand in Africa to-

day. The social upheaval arising from nationalistic ferment and the transfer of political power from colonial administrations and traditional chiefs to popular control may cause the new African governments to take actions which may look like the antithesis of democracy. But such actions do not mean the failure of Western ideology or the loss of the new states to the East. European institutions or governments may be changed as they are adapted to African conditions, but they will nonetheless be suited to the needs of the people they are designed to serve.

The government of Ghana has been criticized in the Western press because it deported individuals active in the opposition party. However, it usually requires some time before a government arising out of a successful nationalist movement can feel sufficiently secure to permit the free play of opposing opinions. Our failure to appreciate this fact may engender suspicions of our motives which will take many years to allay. On the other hand, our desire to promote stability should not blind us to the fact that the outer forms of stability may camouflage a static society in which democracy is stifled.

When we promote the general aims of economic and political stability, we need specific policies that are flexible enough to encompass

territories at many varying stages of development. An economic aid policy suitable for a relatively highly developed territory such as Nigeria would be far from satisfactory for Somalia.

But the problem of tailoring aid to suit the requirements of the all-African states is a simple one compared to that of dealing with Kenya and the Federation of Rhodesia and Nyasaland—territories with powerful European minorities. Here the United States faces the most crucial test of its policy-making skill. These areas need help as much as those where there is no permanent European minority. Yet American help to such countries inevitably exposes us to the charge, however unfounded, that we seek to maintain European control. The United States cannot, of course, interfere in the racial policies pursued by any African government, but it can exert an influence. Largely by our example at home, we can demonstrate that it is possible by legislative measure to work out at least a partial solution to the racial problem. Some Americans urge that we cut off all economic aid to the multiracial territories, but such precipitate action would do more harm than good. It would only strengthen the determination of the Europeans to resist external prompting, and it would also have the long-run effect of slowing down the pace of

economic development. Europeans and Africans alike would lose.

American influence will continue to be limited for some time to come in the colonial areas. Perhaps our most direct method of applying pressure to the mother countries is through the Trusteeship Council and the General Assembly of the United Nations. America can play an important role in supporting independence for the present Trust Territories, and it can be of indirect help to the already independent territories through such United Nations activities as the Technical Assistance Program and the new Economic Commission for Africa.

Counterpart funds

American economic assistance has been extended indirectly to African colonial territories almost since the end of World War II through counterpart funds under our mutual aid programs. Increasingly, however, the independent African states are turning to America for help in their development programs. In the fiscal years 1957 and 1958 more than \$70 million annually has gone to these countries from the Mutual Security Program. The Export-Import Bank has loaned an additional \$15 million. There are indications that the sums under the 1959 aid and loan programs will be substantially greater.

American private investment in Africa today amounts only to slightly over a half billion dollars—a trivial proportion of American funds abroad. Most of our investments have gone into mineral developments in South Africa, the Belgian Congo and Northern Rhodesia. Two large-scale aluminum projects in Guinea are expected to require investments of United States, Canadian and European funds totaling well over \$200 million. Private foreign investment will increase, but its role is likely to continue to be minor. Most American assistance will necessarily continue to be in the form of government loans and grants in basic transportation and public utilities, which normally fail to attract private capital.

We must know the Africans before we can deal with them effectively. Yet our policies have been hampered by a lack of information on the political attitudes, especially of the emerging indigenous parties. In the past it was possible to rely on our embassies in Europe for African information, but the rapid appearance of independent states has left us feebly represented in Africa itself. We are largely dependent on the reporting of our foreign service officers, and yet in 1958 the United States was represented in Africa by only 280 foreign service officers in 33 posts. Our representation

was larger in some European countries than for the entire African continent. We plan to open only six new posts in 1959, and there remains the even more critical problem of finding trained officers who know the area.

The greatest single dilemma of our policy in the past has concerned our support for colonial nationalism. African nationalists have frequently criticized the United States for its failure to champion their cause publicly in the United Nations and privately in our dealings with colonial governments. It is true that our own history would encourage us to expose the cause of new nations; indeed, we used to support them openheartedly in the old days. But today our obligations to our European allies inhibit such easy generosity. Colonial self-government may involve the risk of serious damage to the economic position of the mother country. Fortunately, this dilemma appears to be growing less acute as the old colonialism disappears.

Fresh problems

Within less than a generation the United States may no longer be faced with the agonizing choice between support of her European allies and of African nationalist movements. By the end of 1960, at least four new sovereign powers will have been created in Africa—

Nigeria, Togo, Cameroons and Somalia. This is in addition to Guinea, which became independent in October, 1958.

But fresh problems are created for American policy-makers as the number of African states grows. Independence may mean a great deal of spiritual satisfaction but its cost, in terms of governmental expense, may well delay their peoples' enjoyment of the richer material life they want. Small, weak states are inefficient. Moreover, their weakness makes them an easy prey for subversion. As a countermeasure, the United States should tactfully encourage new combinations of African territories with broader economic foundations.

The West must be prepared to accept some radical changes in the map of Africa. We have been accustomed to the artificial boundaries carved out by the European powers; we forget that African combinations of territories pre-existed the European invasion. The Africans remember them well.

Two vitally important events for the future of Africa took place in 1958, the Accra Conference of Independent African States in April and the announcement on November 23 of the creation of a confederation joining Ghana with Guinea. Both of these illustrate the attractions offered to newly independent states by the growing

power centers in West and North Africa. New confederations are not signs of an "African imperialism" but of the Africans' desire to help themselves economically as well as politically; the unions are a promise of maturity.

Africa has frequently been called the greatest "uncommitted" area left in the world today. No widespread Communist movement exists in any African territory. The few pockets of Communist influence have failed to reach the mass of the African peasantry. It is true that Kwame Nkrumah of Ghana has called himself a Marxian Socialist, and Sékou Touré of Guinea has made no secret of his early Marxist training. But such declarations must be interpreted within their African context. To ensure popular support for their efforts, nationalists have often found it expedient to declare themselves for an economic system which, in theory, is directly opposed to colonial exploitation. Once in power, however, African leaders have not hastened to create a socialist state; Ghana is acting in classic capitalistic fashion.

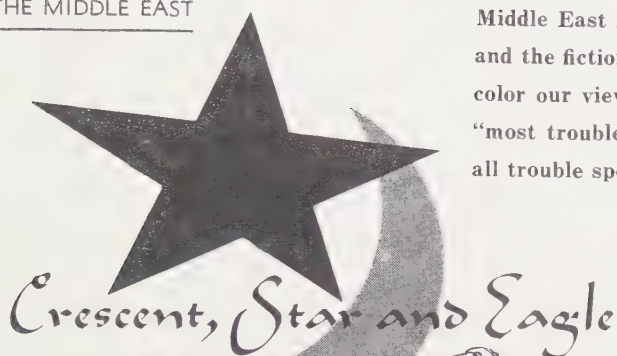
The threat of increased activity on the part of Communist groups cannot, of course, be ignored. Soviet Russia has extended immediate recognition to Africa's independent states, and Soviet diplomatic representation in the area is constantly growing. Almost all

of the new nations have entered into trade pacts with Russia, often on very advantageous terms, and Soviet offers of economic aid have been freely extended.

African leaders, however, have indicated a desire to remain on friendly terms with each side. They know they need Western capital and technical knowledge, but they do not want to lose their independence a second time. In this sense, the African states are far from "uncommitted"; they are committed to furthering their own interests as they see them. If, in pursuit of this objective, they can take a stand midway between East and West, they make the fact of their sovereignty clearer.

It is imperative that American policy respect and understand African neutrality. An attempt to force a commitment would only serve to weaken our own position. Continued American economic help looking toward an orderly development of the African countries will produce the firmest basis for cooperation.

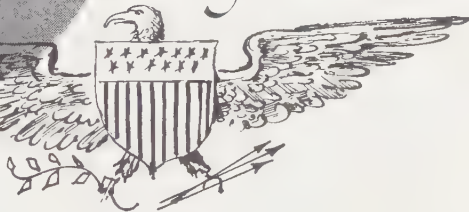
The real challenge of Africa for American policy lies in our ability to foresee the distribution of political power in a continent where decisions will lie predominantly in African hands. Only if we understand and help meet the needs reflected by these decisions shall we be able to preserve our present friendships in Africa. ■



Crescent, Star and Eagle

by Haig Babian

Middle East realities;
and the fictions that
color our views of that
“most troublesome of
all trouble spots”



■ ON NOVEMBER 9, 1800, the U. S. frigate *George Washington*, under the command of Commodore William Bainbridge, arrived at Constantinople harbor. It is said that when Sultan Selim III saw the Stars and Stripes (the first time those national colors had been seen at the Ottoman capital) he predicted a long and happy association between his Middle Eastern domains and the young country in the new world. Reason: heavenly bodies appeared on the flags of both nations.

The story is interesting, if unauthenticated. It does cast doubt, however, on Selim's reputation as a reader of signs. The fact is, the Middle East and the newer West

were frequently at odds all through the 19th century. And the 20th century has been particularly trying.

Today, misunderstanding and suspicion between the United States and the major portions of the Middle East are at their height. To us it appears that in spite of our best efforts, sincerest offers and most unselfish actions, the symbolic crescent and star of the Middle East remain strangely and thanklessly susceptible to rapid transformation into hammer and sickle—and without too much popular protest. For their part, Middle Easterners of influence have been known to express themselves privately and publicly

to the effect that the American eagle (a symbol Sultan Selim did not know) is a bird of prey, its noble pose notwithstanding. Each side proclaims that the other is grossly misrepresenting the truth. And so the issue is joined.

Persistent ignorance

There can be no gainsaying that relations between the United States and the Middle East have been handicapped by a persistent ignorance about one another, an ignorance equally prevalent among the peoples of both areas. But the greater responsibility for the existence of this unfortunate condition must fall to the government and people of the United States. For the undeniable fact is that the other side happens to be the underdog. Illiteracy, poverty and disease are not particularly widespread in the United States; but they are in all the Middle Eastern countries. Nor are we suffering from the effects of vast political, social and economic realignments. Nor are we being wooed and cajoled from two directions to choose sides in the cold war. Nor has our land been occupied, administered or otherwise "protected" by foreigners. Nor have we seen outside concessionaires initiate and run enterprises on our territory which we wish we could run for ourselves. In short, insight demands that we,

not they, must assume the initiative to further mutual understanding. We, not they, have by far the greater means and ability to do so. We, not they, are the "havigest of the haves," and on this count alone we owe them an explanation that is inspired by something more than rationalizations or simplifications of desires, creeds and faiths they cannot understand—and do not trust, in any case.

At the base of all our problems in the Middle East is the unqualified identification of the U. S. with the colonial powers by the peoples of the area—and this in spite of the popular belief in the United States that nowhere else (with the possible exception of China) have we acted with so much generosity and sincerity and been rewarded with so little thanks.

A study of the history of American relations with the Middle East would suggest, however, that American interests in the area have at times involved something more than charitable and educational activities, or technical and economic assistance. And while empire-building has never enjoyed a sustained popularity, the United States did manage to develop and protect its special interests in the Middle East for a period which goes much further back than our recent preoccupation with affairs in that part of

the world would suggest. A thumb-nail review of this history would be interesting, if it only serves to demonstrate how the facts seem to the people of the Middle East.

Colonialism's friend?

Our first contacts were motivated by commercial interests, which makes the United States no different from the other Western countries who came to do business in the Middle East—and overstayed their welcome. After diplomatic relations had been established between the United States and the Ottoman court, problems relating to trade and to the missionary activities of American religious groups frequently came before the State Department. Later on in the 19th century we find American exporters pressing through diplomatic channels to get in on the pork trade with the Ottoman provinces (the consumption of pork is proscribed by Moslem religious law). Still later the Open Door policy of the United States insisted on the same rights and privileges as the great European powers had exacted from the Ottomans. On matters relating to extraterritorial rights and the regulation of Ottoman tariffs, the United States acted substantially in concert with the European powers. The so-called Chester Concessions, sought by American railroad interests, hardly can be dis-

tinguished from the activities of the empire builders of Germany, Britain, et al.

The post-World War I period started hopefully, but, in sum, United States policies in the Middle East remained closely identified with those of the other Western powers. In the light of the peace settlements, the Wilsonian promise of self-determination remained as much a dead letter for the peoples of the Middle East as the British 1915 pledge of Arab independence. The United States failed to join the League of Nations, but not because imperial interests were being sustained under the name of mandates. In fact, the United States insisted upon equal rights in Middle Eastern mandated areas, along with whatever favored treatment the mandate powers sought to accord to themselves.

Finally, the American acquisition of oil interests in the Middle East and the prominent role played by the American government in the creation of Israel have irretrievably put us in that general Western camp which the peoples of the Middle East (with the Turks excepted) regard as traditionally unfriendly to the fondest aspirations of the area.

Against this set of realities is another set posed by Americans. For one thing, it is suggested that it was never the conscious policy

of the United States to physically control the geography of the Middle East in order to serve the greater purposes of imperial, commercial and cultural aggrandizement. It is contended, and rightfully so, that our present-day military and air installations in such countries as Turkey and Saudi Arabia are a result of mutual agreements as much sought by Turks and Saudis as by Americans. It is pointed out that the development of American oil interests in the Middle East has taken place in the spirit of free negotiation between private United States companies and the sovereign nations involved, and, furthermore, the generous terms of compensation agreed to by the private American oil companies have set the pattern for such compensations by oil concessionaires all over the world. It is additionally pointed out that the American government and people have always been in sympathy with the national aspirations of the Middle Eastern peoples, as witness the official American position in urging upon a wartime ally, France, to grant complete and unconditional independence to Syria and Lebanon. The staying hand of the United States in the Anglo-French-Israeli invasion of Egypt in 1956 is offered as a recent demonstration of our good intentions.

The American case is a strong

one, and a history of altruism appears to figure prominently in it, right up to the present period of millions of American tax dollars going to the Middle East for military and economic support. Even Arab nationalists will concede the importance of early American missionary work, which brought into Syria the first printing press in 1834, thereby contributing to the revival of Arab literature and the rekindling of national consciousness. Beyond this, however, the United States is conceded very little else. The question of motive becomes paramount, and it is by examining the interpretation put on American motives that we can find the answer to why policies which appear to us to be enlightened have quite a different meaning to Middle Easterners.

"Came too late"

No credit accrues to us if an historical atlas does not show the Stars and Stripes planted over Middle Eastern lands. However uninformed the Middle Eastern common man might be, again and again in the coffee houses of the towns and behind the dung-heaped walls of village shacks, the knowing wave of the hand passes judgment: "But you Americans came too late. You had to do things another way." (It would be well for Americans to remember that in the Middle East politics is a pop-

ular art form, intuitively practiced and surprisingly well understood.)

The contribution of American missionary work to Arab nationalism is dismissed as an unintentional by-product. For was it not the hope of such missionaries to convert the faithful to Christianity? The much-discussed generosity of American oil companies is understood to be what it is: an unavoidable price that must be paid in order to keep the black gold flowing toward world markets. Moreover, the vast royalty income that the oil companies have made available is set down by the new men of the Middle East as a crime against the people, for they allegedly serve to enhance the power of ruling groups whose chief ambition in life is to keep themselves in power and their wealth ever-increasing at the expense of those living in feudal subjugation.

Assumptions and response

The American wartime "foreign aid" assistance to King Saud's treasury, prompted by the King's demand for a five-year guarantee of oil royalties at \$6 million a year (a sum Aramco felt it should not pay) is cited as an example of how American official policy pursues a self-seeking dollar line. "Where there's oil, there's American interest in friendly relations. Otherwise, there's nothing."

But it is when we get into such matters as the Truman Doctrine, the Eisenhower Doctrine, economic assistance and the entire gamut of mutual security arrangements that Arab doubts about American sincerity are greatest. And this is precisely the one aspect of our relations with the Middle East that we feel is the most misunderstood and least appreciated. Our position is built on the assumption that (1) the American taxpayer has been unselfish in extending funds to better conditions in the Middle East; and that (2) the American people and government have risked danger to themselves to defend the Middle East from subversion or attack.

The Middle Eastern response to these professed motives is that the United States would not care in the least about the safety of the Middle East if its own vital interests were not involved. And as for the economic altruism of the American taxpayer, more than one Arab nationalist has asked, "Where was your economic assistance program before the Communists offered their alternative to our difficulties? Where was your anticolonialism before the Bolsheviks denounced colonialism?"

These, then, are the main areas of misunderstanding between the United States and the people of the Middle East, with whom the United States would like to have

some influence. And influence is the essence of what American policy seeks to win. There can be no denying this, since the degree of influence that we can exercise is basic to our success or failure in the cold war. This is what we want, and we should admit it. In fact, a whole series of admissions is in order:

- I would admit that the United States has honest business motives in the Middle East and that the conduct of business enterprises must be along lines which assure maximum efficiency and faithfulness to the interests of the national origins of the resources involved.

- I would admit that whatever the errors or good deeds of the past, the world is in a state of rapid change and that American policy is anxious to accommodate itself to such change.

- I would admit that mutual security and economic assistance programs quite naturally take into account the protection of American interests, but that at the same time they involve considerable resources that the people of the Middle East can use to their own advantage—if imaginative programs can be mutually conceived and put into operation.

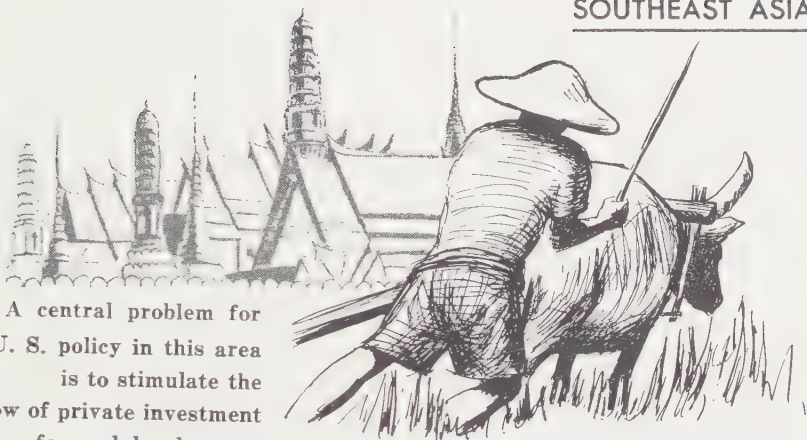
- Finally, I would admit that the Communist alternative poses a dangerous possibility to us, but that it holds equal danger to those

who try to pursue it, which they are free to do, if they wish. Our alternative is offered with the understanding that it is a good deal only if it benefits both sides.

Implicit in such a series of admissions is the assumption that Middle Easterners cannot be expected to be like Americans, holding in high regard precisely those traditions and ideals that we hold dear. "Freedom is relative to the times," one Middle Eastern businessman told me recently. "The freedom you preach is a luxury we cannot afford yet, and free enterprise does not exist even in your country."

Thus, the manner in which we seek to gain influence must take into account the milieu of Middle Eastern society. We shall be better communicators for it. Our Anglo-Saxon respect for contract, for example, which looks askance at the nationalization of the Suez Canal, was not nurtured in the spirit of respecting Egyptian hegemony over our Erie Canal. And while we are at it, we might as well admit that the *baksheesh*-ridden bureaucracy of the most backward Middle Eastern countries is no more dishonest than the middle-management practitioners of expense account padding here.

In short, there is nothing so wrong with American policy in the Middle East that plain talk and honesty with self cannot cure. ■



A central problem for U. S. policy in this area is to stimulate the flow of private investment for real development

by Frank H. Golay

A Hunger for Plenty

■ MORE CONSCIOUS effort has been devoted to the problem of economic development in Southeast Asia since the end of World War II than at any time in the area's history. The governments of the 500 million people who have gained their independence in the last 13 years have shown initiative and ingenuity in exploring the potentialities of economic planning, commercial policy, monetary and fiscal policy, nationalization, and so on. At the same time, the industrialized countries of the West have created new institutions and adapted old ones in their attempts to help spur the growth of the less-developed countries.

The result of all this activity has been a growing sense of frustration, both in the West and in Southeast Asia. More and more, we are coming to realize that the problem of accelerating economic growth is a complex and many-faceted one which does not lend itself to doctrinaire solutions. Rigid ideologies of "pure" capitalism or "pure" socialism are of little help as a guide to the problem of economic growth in Southeast Asia.

One of the key objectives of American foreign economic policy is to increase the effectiveness of our participation in the economic expansion of the less-developed

countries of the world. Neither in Southeast Asia nor anywhere else can we claim that we have yet successfully realized these objectives.

Trade, aid, investment

The United States has sought to participate in the economic development of Southeast Asia in three ways—trade, aid and investment. Of the three, foreign trade is undoubtedly the most important, for the gains to be derived from international specialization and exchange are real and can be shared by all parties. A necessary supplement to trade is economic aid—a one-sided transfer of goods and services by the United States in an effort to contribute to the accumulation of economic resources in underdeveloped countries. Large-scale government loans accomplish much the same end by transferring badly needed capital resources to the less-developed countries.

Last, but not least, there is private, long-term foreign investment. This is an institution in which we have a great deal of faith and which we are actively promoting. So far, however, the role of our private investment in the development of Southeast Asia has not been significant. In 1957 (the last year for which reliable figures are available), the Department of Commerce reported

that United States direct investment in Southeast Asia amounted to approximately \$85 million. While this represents an increase over previous years, it is still only 2.7 per cent of our total direct investment in 1957. Granted that the figures may show an increase for 1958, this is still unsatisfactory when matched against the capital hunger of the area.

The fact of the matter is that, while there has been a substantial increase in our direct investment overseas, most of it has moved into Canada, Latin America, Western Europe and the oil-rich Middle East. Our investments have tended to by-pass precisely those areas where the greatest need exists.

The United States is currently trying to overcome at least one of the obstacles to the flow of private capital to underdeveloped areas through its investment guarantee program. Since 1948, our foreign aid agencies have attempted to reduce the risks of our private foreign investments by insuring them against expropriation and the inability of foreign governments to convert local currency profits into dollars. But these guarantees are available only in those countries which agree to participate in the program, and at present the only East Asian countries affected are Taiwan, Pakistan, Thailand and the Philippines. Our government has also sought

to negotiate bilateral treaties which provide for prompt and adequate compensation of American investors in the event of nationalization. But so far, this program has not been successful in Southeast Asia.

Existing opportunities

A more promising approach is provided by the International Finance Corporation, an affiliate of the International Bank for Reconstruction and Development, which will invest exclusively in private concerns in underdeveloped countries. The development institutes which operate in Southeast Asian countries under the joint auspices of the United States and the host country complement the work of the IFC by helping both foreign and domestic investors to take advantage of existing opportunities.

Why, in view of all these programs, does private U. S. capital continue to avoid Southeast Asia? Part of the reason, no doubt, is the humiliating scrutiny, regulation and control to which most private foreign investment is subjected. At best, the foreign investor may be able to negotiate special arrangements which permit him to use part of his foreign exchange earnings to service his investment; more often, capricious and discriminatory controls introduce risky uncertainties into all business calculations. While it is

true that such controls partly reflect the persistent trade imbalances which afflict most Southeast Asian countries, they also reflect the prevailing stereotype of foreign investment as exploitative.

The essence of direct investment is that the investor can make decisions concerning the costs which determine the profitability of his investment. It is this control which distinguishes direct investment from the portfolio variety which dominated international capital movements before World War I. And it is this necessary element of investor control which tends to conflict sharply with Southeast Asian nationalism. How to reconcile the foreign investor's demand for some degree of control with the Southeast Asian's fear of foreign domination is one of the most difficult problems confronting our foreign economic policy-makers.

Many Western economists believe that direct, long-term foreign investment increases the underdeveloped country's supply of badly needed foreign exchange. Experience has shown, however, that foreign investment, like domestic investment, expands money incomes and, therefore, the demand for imports and foreign exchange. Moreover, to the extent that direct private foreign investment in any given year is less than previous local currency earnings of such investment, there will

be no net inflow of foreign exchange. Inasmuch as earnings from U. S. private investment in recent years have been running close to \$4 billion annually, compared to an investment outlay of \$4 billion in 1957, clearly the outflow of direct investment dollars has been matched by earnings in foreign currencies and has not provided recipient countries with foreign exchange. And what is true of our direct foreign investments in general, applies equally to most of the underdeveloped countries of Southeast Asia.

Of course, it is also true, as Westerners frequently point out, that foreign investments contribute to an underdeveloped country's supply of foreign exchange when they help to produce exports or domestic substitutes for imports. In fact, foreign investment has traditionally been concentrated in the production of food and raw material exports. Considering the productivity of this kind of investment, Westerners are often surprised at the hostility with which the newly independent Southeast Asian countries view it. Southeast Asians believe that the emphasis of their erstwhile colonial rulers on food and raw materials is largely responsible for their economic backwardness. A primary objective of their governments is to stop being the "hewers of wood and carriers of water"

for the rest of the world and become instead diversified, industrial powers. Only in this way, they feel, can they become independent of fluctuating commodity prices. Only in this way can they realize their national, social and economic objectives.

Regulate profits

But while traditional private investment in primary commodities is coolly received, Southeast Asian governments welcome foreign investment in manufacturing for the domestic market even though this does not add to their supply of foreign exchange. On the other hand, this kind of investment is often impeded by regulations which tie the hands of management. Westerners tend to assume that, were it not for private foreign investment, there would be no available risk capital for industrialization. Wealthy Southeast Asians, they point out, tend to invest their savings in real estate, jewelry and foreign trade rather than in long-term productive projects. Officials of the underdeveloped countries counter this argument by pointing to the price which their countries had to pay in the past for this risk capital. The only way to prevent such exploitation in the future, they believe, is to regulate the profits from foreign investments through taxation, exchange con-

trols, minimum wage laws, and so on.

There is much to be said for the contention of Southeast Asians that foreign investment must be subjected to a considerable amount of direct control by the nation which receives it. It is a fact that the benefits which an underdeveloped country will receive from foreign investment depend, to a considerable extent, on the bargaining skill of the foreign investor on the one hand and the underdeveloped country on the other. The weakening of the 50-50 rule in oil concessions shows how much depends upon the bargaining skill of the investment-receiving country.

There is one other point which needs to be stressed in this connection. Westerners tend to assume that when we set up an American firm in an underdeveloped country, this automatically provides that country with the skills necessary to operate a similar plant of their own. Somehow, we assume, complex skills and know-how will rub off on the na-

tionals of the recipient country who work for foreign firms. Southeast Asians, on the other hand, have little faith in the inevitability of such osmosis. To make sure that their people will learn badly needed skills, most Southeast Asian governments put limits on the use of foreign personnel and insist on the maximum possible participation of their own nationals.

I believe that there are few grounds for expecting a rapid improvement in the political climate for direct investment in Southeast Asia and I think that it would be a mistake for the United States to put too much reliance in this institution as a means of helping in the economic development of the area. This does not mean that direct private foreign investment, particularly investment in manufacturing for the domestic market, cannot play an important role. It does mean that we would be well advised to seek other institutions which both complement and substitute for private foreign investment. ■

The Role of Government in Underdeveloped Countries

CONTRARY to common belief, the role of government in the economies of underdeveloped nations is usually much smaller than is the case in industrialized nations. Statistics show that the poorer the country, the smaller is the government's share of national income.

George V. Allen

Director, U. S. Information Agency

Information Is A Two-Way Street



Q *Mr. Allen, when you first entered the foreign service, it was not considered necessary for the U. S. government to have such a thing as an information agency. If we had had an information agency 20 or 30 years ago would we be better off today?*

A I wouldn't care to speculate, because that would be hindsight. When I entered the foreign service 28 years ago, respectable governments just didn't go over the head of another government and appeal directly to its people for approval and support of certain policies. More than one diplomat was expelled for overstepping the bounds and dealing directly with people in just that fashion. But all that is changed. While I believe that a U. S. government overseas information and cultural program would be necessary today *even if the Communists* did not exist, we certainly have no choice now but to fight the tremendous propaganda effort directed against the free world.

Q *How much money are the Communists spending on propaganda?*

A A conservative estimate of the amount of money the Soviet Union and its satellite nations spent on propaganda in 1957 runs somewhere between \$500 million and \$750 million—not counting the \$100 million or so expended to jam the free world's radio broadcasts. And 1958 was a bigger year. The fact that Communist propagandists are constantly increasing their activity points up the need to counter their distortions by every means available to us.

Q So we, too, are now in the business of talking directly to people—over the heads of governments. Is there an ideal American image that you would like to see projected abroad?

A There are many American images, of course, and we just can't project all of them at one time. What we must do, however, is to try to help other peoples understand that we are, basically, peace-loving, democratic people; that we are willing to share with less-fortunate nations; and that we are strongly opposed to the use of armed force to achieve territorial ends. We want enduring peace based on justice and mutual respect.

Q That's a fairly sizable image to put across.

A It is. But what I have just said is not the "official line" to be "put across," as you state it. It is simply the truth. Of course, how this truth is received abroad depends entirely on the image that people might already have of us.

Q How would people get preconceived notions, or images, of the U.S.?

A The hodge-podge image other peoples have of us is the creation of a thousand different bits of information and misinformation. Official U. S. policy contributes to the development of that image. So do the actions, good or bad, of the more than two million Americans abroad. Impressions are left by our motion pictures, by our soft drinks, chromium-trimmed cars, jazz music, chewing gum, crooners, the actions of the Ku Klux Klan, of political extremists—all of these and much more contribute in some measure to the making of the images that other peoples have of us. Also, what unfriendly propagandists have to say about the U. S. influences the shaping of our image.

Q Is it the primary concern of the United States Information Agency to counter the distortions of unfriendly propagandists?

A The immediate task is to counter the distortions. But the main concern of the USIA must be the steady building of a solid foundation of confidence in the U. S. among the peoples of the world, in the integrity and good will of the American government and people.

Q How do you go about doing that, Mr. Allen?

A There are three ways to persuade people: (1) put them in chains until they become amenable; (2) brainwash them; and (3) use honest persuasion to support the soundness and good will of your point of view. The last is the American way.

Q *The American people in general and the government of the U. S. in particular are rather new at this game of propaganda, are they not?*

A Yes. Our job is not made easier by the fact that a good many Americans, including me, have been reluctant to see us engaged in propaganda work. But advertising, for example, is a respectable profession in the United States: yet advertising is propaganda of a sort.

The best possible product—freedom and human dignity

Q *Would you say that the task of telling people abroad about the U.S.A. is the same thing as trying to sell a bar of soap?*

A Hardly. But the intent of both advertising and the type of work that we do is the same—namely, to call attention to a product we have confidence in. And the U.S. has the best possible product—freedom and human dignity.

Q *How much value do you think freedom and human dignity have in the world market today?*

A They have universal appeal. Even the totalitarian states give them lip service to catch the unwary. They speak of “people’s democracies,” “people’s republics,” and so on. Totalitarians must pose as the champions of free people in order to make headway.

Q *Mr. Allen, what are you up against when you try to sell people abroad on the basic faiths and good motives of the U.S.?*

A Well, you have to remember that we have achieved a very significant and very prominent place in the world. This position of prominence worries other peoples that the U. S. might try, however subconsciously, to submerge them in our so-called Coca-Cola or comic-book culture. So, whenever we talk about “selling” the U.S., as you just phrased it, people get their backs up. They don’t want to lose their identity, and they resent attempts by a large and strong nation to “sell” them on any more

than they feel they want to buy in the way of ideas.

Q *Well, now, if you don't want to describe your job as one of "selling" America abroad, how would you phrase it?*

A I much prefer to speak of the aims of USIA as one of building international understanding. Now, I realize that sounds like a platitude, but it is a good motive to have. It is often said that people everywhere want peace. I have verified that desire, noted it in the various countries that I have lived in during the past 28 years. This is as true behind the Iron Curtain, as anywhere else. So, if people everywhere want peace, why don't their governments give it to them? It seems to me that there hasn't been peace because there isn't enough grass-roots understanding among the peoples of the world. That is why I say the most important thing we can do is not *sell* America—in the sense that we want people to stand up and salute every time the Yankee Doodle is played—but build a two-way street for exchanging international understanding. If we can do that, in time governments will take the actions necessary to bring about international stability and peace.

Q *Mr. Allen, would you go so far as to say that your primary task is to promote international understanding, not the acceptance of American institutions by other peoples?*

A Absolutely. I believe that firmly.

Q *And you would not attempt to try to further the cause of political democracy or, let us say, of free enterprise?*

A That's something else again. I would like nothing better than to see democracy and competitive enterprise take root and flourish all over the world. But on the basis of my past experience, I do not believe that this is something that we should try to push other people into. For three years I was U. S. Ambassador to Yugoslavia. Now, during all that time, there was no doubt that I knew and understood Tito was a Communist dictator. Yet, that didn't prevent our getting along, as long as he wasn't trying to dominate someone else and extend his system to other countries. Now, I suppose we could try to force our institutions on countries like Yugoslavia, if we put enough effort into it, both in men and money. But such a system would stand only as long as our money or our bay-

onets could hold it up. In order for institutions to stand, they must grow out of the soil of the country itself. In my opinion, if they are imposed from the outside, they will only stand as long as the props are supported from the outside.

Q *Then, what is it you hope to accomplish by telling other peoples about America's faiths, hopes and ideals?*

A We hope that everybody in the world will see what our institutions have accomplished in the U. S., and that we are very proud of them, justifiably so. If people have eyes and they can see and read, they will, I think, be impressed by what has happened here. Now, we would like to have them borrow as much from our experiences as they might find useful for themselves. But for us to go beyond that and try to impose systems on other countries, I just don't think that would work. It would only get other peoples' backs up; it would be artificial and counterproductive, in my opinion.

Q *Mr. Allen, how convincing can the virtues of the U. S. be if the peoples of the world have access to all the self-criticism we subject ourselves to—which, incidentally, the Communist propagandists also pick up and flaunt all over the world?*

A My feeling about that situation is precisely this. There are those diehards who persist in thinking evil of the U. S. These are the people who are always going to pick up our faults and who will never give us credit for our virtues. The only thing I can say about them is that it is their loss if they insist upon drawing an unclear and improper picture of a nation which they themselves speak of as potentially the enemy. In a sense, they are putting themselves in a position of underestimating the enemy, and that is their lookout.

“We cannot hide our faults any more than we should our virtues”

Q *And what about the other peoples of the world—not the Communist diehards, but, say, neutrals?*

A We have an open society. We cannot hide our faults any more than we should hide our virtues. Anybody may come, look and watch our system in action. Now, I want to do whatever I can to help people get a true

image of the U. S. But I am not going to get ulcers over the fact that some of the bad news about us is getting across with the good. I *would* get stomach ulcers if my country tried to conceal our faults, building a bamboo or iron curtain around us, trying to give a false image. I would get very worried if my Agency were ordered to give a false impression of the U. S. abroad. If, for example, we tried to conceal that situations like Little Rock existed, I would be worried. But as long as I can feel that we have an open society, that the U. S. is willing to let its economic, its political and social institutions be examined by anyone who is curious—American or otherwise—as long as we are trying to put forward a straight, honest picture of the U. S., then I can sleep with my conscience.

Q And what if, in spite of all this, there still are people who have a false image of the U.S.?

A Well, I will not be happy, but I repeat that those who hold this false image are the chief ones to be pitied. This works both ways, of course. If we Americans have a false image of other people—if we over- or underestimate them—we are the principal losers. Now, USIA is expected by Congress to tell other people about the United States, not to tell Americans about other people. The latter task is the responsibility, chiefly, of the American press, radio and television, of American educational institutions, and of the foreign governments themselves. The British government, to take one example, has 150 or so officials in the United States attached to their embassy in Washington and to their consulates in New York and elsewhere. Their job is to give out information about Great Britain. Most other governments have similar officials here. It is important *to us* that they do a good, factual job. As long as they do so, I am anxious to help them, just as I hope they will help our people in their country. International understanding is a two-way street. But I repeat that our assigned task is to tell others about the United States, and if people in other countries know where their own interests lie, they will do everything they can to gain a true image of America. If their image of us is false, we are unhappy. But they should be even more so.

Q Thank you, Mr. Allen. ■



**general
response**

Important areas of economic activity were showing a tautness that will help the nation rebound to maximum vigor. Inventory liquidation had halted in the last quarter of 1958, and new demands will require more stocks. The consumers were firm about maintaining and expanding their demand for almost anything, including the new automobiles. The new federal budget was so taut that few believed it would not burst out of its "no-deficit" wrapper.

**year's
work**

If unemployment remained too high, December's workweek, at 40.2 hours, was the longest in 22 months. This was no immediate comfort to the jobless, but it indicated that the employment market was getting increasingly taut. More orders would mean that employers would have to begin to expand their payrolls. Meanwhile, weekly factory pay was rising, jumping \$1.46 in December to a record \$88.04.

**toward
spring**

Signs of increased activity were burgeoning at all sides, although there was no guarantee that every weak flank was covered. European adjustments and the imponderables of international events made predictions about export trade highly fragile, but economists point out that our foreign business is but a small part of the whole and that the domestic situation, characterized by consumer confidence and mas-

sive governmental spending, gave no indications of faltering. If the \$77-billion federal budget did achieve a miraculous balance, the actions of the states were certain to put the total of governmental influence on the boom side of the ledger. The states will spend nine per cent more in 1959 than they did last year, attaining a total of almost \$25 billion.

**model
construction**

Highway construction, an area in which the economy is always trying to catch up with itself, will reach record levels in 1959. New contracts should amount to \$3 billion for all programs in the course of the year. Total 1959 outlays will be above \$6 billion, compared with \$5.4 billion for 1958. Highway programs, moreover, represent an element of long-range vigor, with plans providing for expansion in the next three or four years to a level of \$10 billion a year.

**improved
impetus**

The momentum of the improvement in gross national product was giving added drive to the economy. The sharp rise in the final quarter of 1958 not only helped improve that year's record but also provided a firm base for future action. Christmas sales left a residual holiday spirit for the new year, and the auto makers could take reassurance in the awakened interest of the consumers in the 1959 models. Retail figures in general for December showed that the month made a new record in volume, breaking all past records by a substantial margin. Total volume for all retail trade was above the \$200-billion mark for 1958.

**shelter
program**

Housing was promising to have a vigorous year after its thoroughly satisfactory achievement in 1958 of 1.2 million starts in dwelling units. The value of the work in new housing last year was estimated at \$13.4 billion, six per cent above the 1957 level. Private construction also helped 1958 achieve a respectable record in total construction, with an expenditure total of \$49 billion. Again, this was a case of consumer strength compensating for business hesitancy, a cir-

cumstance that permitted executive planners to restore their confidence for 1959. Prospects for heavy construction are improving sharply as a result of changes in industrial projections for plant expansion and modernization. Private contracts should rise about eight per cent in dollar volume, eliminating the setback in 1958.

convergence

If auto sales had not yet firmly established the hopes for 1959, experts were bravely predicting a rise of 30 per cent for this year. Such an increase, which would bring annual sales to 5.5 million units, would have a vivifying effect on the economy in general and employment in particular. While the consumers were being persuaded to replace older vehicles, all of business and industry were feeling the need to make the replacements and innovations that had lagged during the recession. Optimistic reports were coming in from such diverse fields as chemicals, lumber, appliances, iron and steel, electronics and clothing.

* * *

**watchful
waiting**

WASHINGTON—This city returned to normal, reluctantly, after all the hoopla faded with Mikoyan's departure. Now it's time for watchful waiting; for everyone assumes that the next move must come from the Kremlin. Prevailing opinion here is that Mikoyan left with a good impression of American businessmen and a poor impression of American politicians and officials. The next Russian move: fabulous offers of trade and big economic opportunities for American businessmen behind the Iron Curtain; also, a "friendly" stiffening of the Berlin controversy, followed by an offer to get together at the summit "to talk things over." The Eisenhower Administration is clearer now on what it wants than ever before. There *will* be a summit meeting, but only if the Russians offer genuine compromises and demonstrate their good will at the atom weapons testing ban meeting.

**proposal
and
response**

The hassle over the budget promises to get much hotter in the next month. Paradoxically, as the economy continues to improve, Congress will get more bullish about government spending. The President's budget proposals will almost certainly be revised. Additions will not be large in any one category, but the aggregate could come to \$79 billion.

**controls
before cuts**

The very majority that will insist upon a somewhat larger budget than the one submitted by the President will be responding to traditional commitments, but unlike the past, they have a genuine desire to contribute to the pressures of inflation. Already there is strong sentiment in Congress to revive economic controls if restored cuts in the proposed budget mean inflation. The dilemma is caused by the fact that the increases proposed by the President touch only the fringes, not the meaty part of government revenues.

**future
promise**

From Argentina to Laos, appeals to Uncle Sam for economic assistance are mounting. There is no mistaking what these people are telling us: either you help us to create more satisfactory conditions, or we cannot be responsible for the consequences. The President says our foreign aid bill will be slightly less this year, but should be increased from now on. In other words, \$3.9 billion for fiscal 1960 represents only a token cut from last year. This doesn't bode well for budgets and taxes of the future.

**budget
dilemma**

Also discouraging is that the total defense part of the budget—at 59 per cent of the whole, only slightly less than last year's proportion—gives us much less to fight limited wars and only a little more for "massive retaliation." Any sustained military emergency, short of World War III, can upset the delicate balance of this budget. This is the kind of dangerous fiscal living that liberal members of Congress are yelling about. But what they propose will not produce the balanced budget they say they are for. ■

THE DILEMMA OF HAVES THE

The natural flow of private trade and investment resources is ill-equipped to foster development of underdeveloped areas



by Felicia J. Deyrup

■ SIR HUMPHRY DAVY, the great English chemist, looked out beyond his laboratory and found dangerous dynamics in the economic inequality of early 19th-century England. Recently a contemporary countryman took the Davy words out of the domestic into a world context: "The uneven division of power and wealth, the wide differences of power and comfort among the nations of mankind, are the sources of discord in the modern world, its major challenge and, unrelieved, its moral doom."

The uneven division of wealth among nations can be indicated by the figures for per capita net national product. Compiled in the United Nations Statistical Papers, the annual levels for the 1952-54 period included: United States, \$1,870; Canada, \$1,310; Switzer-

land, \$1,010; United Kingdom, \$780; Mexico, \$220; Pakistan and Korea, \$70; India, \$60; and Burma, \$50.

This is the background against which American trade and investment policies operate. We want to do more business with the underdeveloped countries, a desire based on the agreeable premise that it will do everybody good. But the figures show how narrow the limits are in the case of an Indian or Burmese whose total year's effort produces goods and services worth much less than \$100. The economic figures also illustrate pressing needs, while today's political chronicle carries the insistent record of India's and Burma's strivings to satisfy those needs.

In the past the less-amenable strivings of colonial peoples ex-

tended themselves to expropriations and independence movements. The intrusion of communism and the specific national force of the Soviet Union have added a new dimension of danger. Where once the advanced countries faced financial loss and the disengagement of colonial peoples from their systems, we now deal with the possibility that these peoples will join our opponents. The example of China can be tempting to an underdeveloped nation, which is likely to be more impressed by Chinese steel production figures than by the loss of theoretical amounts of freedom.

We are encouraging the underdeveloped nations to take a gentler course to well-being. To what extent can we help them in terms of trade and investment?

Economic contact between an industrial and an underdeveloped country usually begins with private trading, with investments following when the advanced nation tries to exploit the trade opportunities more fully. The tie between trade and investment has led to heavy foreign investment in mining and the production of agricultural goods for export. Both countries, the underdeveloped producer and the industrial consumer, profited, but the backward country was not growing in a balanced manner.

In 1957, of \$8.8 billion invested

by the United States in Latin America, only \$1.7 billion went to manufacture, while \$4.3 billion were devoted to mining and oil exploitation, the remainder going into miscellaneous trade items. Elsewhere in the underdeveloped regions of the world, American direct investments totaled \$4 billion, with \$2.4 billion going to oil and only \$600 million to industry.

The basic fact of investment is that capital will go where it can get the biggest and safest return. Two industrial countries will today normally derive more benefit by trading—and thus coming to invest in each other—than by trying to defeat each other in a race for colonial markets and empires.

The relation between the advanced and the backward country can be characterized by the word "complementarity," the one economy complementing the other in manufactured goods, on the one hand, and raw materials, on the other. But two industrialized economies can offer each other a greater variety of goods and range of markets. This pattern of trade and investment has operated to break down whatever economic *raison d'être* there may have been for colonial systems.

American investors have reacted normally to the attraction of profits in other industrialized countries. While they were invest-

ing fractionally in the industrial activities that the underdeveloped nations need so much, they placed half of the funds going to Europe and Canada in manufacturing.

It is true that our trade with Europe suffered a still unrepaired damage from the two world wars and the depression. Europe's share in American imports, thus, fell from 50 per cent in the century's first decade to 20 per cent in 1951-55. But Latin America and Canada got most of the benefit of the shift, and we have seen that the Latin American underdeveloped regions are being encouraged by our trade and investment to remain raw material producers—in other words, to remain underdeveloped.

Hard competition

If the underdeveloped nation finds it difficult to compete with industrialized countries for the American investor's funds, it encounters even harder competition within the United States itself. It is indeed impossible to estimate how much capital never goes abroad merely because it can earn a sufficiently attractive profit without crossing the border.

We can illustrate the relative unimportance of capital export by comparing 1929 and 1957, which stand at opposite ends of a period of great world crisis. In 1929 we invested 15.5 per cent of our gross

national product in domestic business and 0.7 per cent abroad; the percentages for 1957 were respectively 14.8 and, again, 0.7. In a world distinguished for rapid changes, this constancy has a bitter eloquence for the investment-poor countries.

Structure of trade

The figures for the 1951-55 period show the recent structure of our foreign trade. From Canada we took 22 per cent of our imports; Latin America, 33 per cent; Europe, 20 per cent; and, from all the rest of the vast world, just 30 per cent. Investment followed a similar pattern. In 1957 we placed one-third of our total foreign investments of \$25 billion in Canada, more than one-third in Latin America, one-sixth in Europe and the remaining fraction in all the other countries.

All these figures illustrate the basic character of the trade and investment problem as far as the underdeveloped country is concerned. Capital does not like to travel; when it does, it prefers the shorter distances, gravitating either to similar economies or to those investments—raw material production—which keep an underdeveloped nation in its unbalanced state. Indeed, the advanced economy may need capital at least as much as the capital-poor country, precisely because of its large

domestic markets and high state of technology. Moreover, the advanced country has all the facilities for sophisticated investment, a highly developed financial system, market control, a trained industrial work force and a climate of intellectual discovery.

Tariffs also take serious effect on trade and investment, discouraging capital export to underdeveloped countries and restricting trade within narrow channels. The essential action of a protective tariff is to cause duplication of plant; thus it wastes capital that might otherwise be more efficiently used abroad. It is true, however, that most of this capital would have gone to industrialized countries. Thus, American investors went ahead with capital placements in Europe despite the rash of protective tariffs after World War I.

American tariff policy affects underdeveloped countries in two sharply contrasting ways. In general, the noncompetitive position of most products of these countries has made it possible to allow the duty-free import of the greater proportion. In 1957 the free list covered 99.2 per cent by value of imports from Malaya and Nigeria, and 90 per cent or more of goods from Brazil, Chile, Colombia, Guatamala and Thailand.

But other countries were treated very differently because their ex-

ports compete with American products. Because of protection of domestic sugar, wool and cotton, only 15.3 per cent of Cuban imports, nine per cent of Uruguayan and seven per cent of Egyptian imports are on the free list. Egypt, it should be noted, has a smaller proportion of imports on our free list than any industrial country.

Room for reform

Here, it would seem, there is much room for reform. But each protective duty represents a bulwark for the protected industry with which a democratic government, subject to popular pressures, will rarely tamper. It is most unlikely that underdeveloped countries will be granted substantial tariff relief, for the charge of favoring foreigners at the expense of citizens is politically explosive and not entirely without merit. The rapid growth of Puerto Rico, safely ensconced within the walls of the American tariff, cannot be duplicated by other countries. Thus the best that can be hoped for in tariff reform is that our government will try to maintain the free list of imports from underdeveloped countries at or near its present levels.

The independent and often aggressive behavior of underdeveloped countries, many undergoing the "green years" of political adolescence, is a continuing problem.

A major purpose of recent American foreign economic policy is to induce underdeveloped countries to modify such behavior in the interest of creating a favorable business "climate." There is no question that Egypt's seizure of the Suez Canal or Indonesia's seizure of Dutch property reflect unfavorably on all underdeveloped countries, discouraging potential investors.

Limits to aggressiveness

But there are limits to the aggressiveness of underdeveloped countries, providing they do not go down the Communist road. There has been relatively little expropriation thus far. Since underdeveloped countries must continue their foreign trading, harsh treatment of foreign investment may close essential foreign markets, quite apart from its adverse effect on future investment. An underdeveloped country may therefore throw its weight around for a while; it may drastically revise its contracts for the exploitation of natural resources, restricting the repatriation of foreign earnings and assets, and establishing severe employment and tax requirements for foreign firms. Sooner or later, however, it is constrained by its need for markets to return to a more normal business behavior. Unless it attaches itself to the Communist

bloc of nations, it must honor its business obligations if it wishes to live and grow.

Thus, in the long run, "climates" become favorable spontaneously. But even where a complaisant government deliberately provides a favorable climate, private foreign capital cannot be cajoled into moving into underdeveloped countries unless opportunities for good profits are conspicuous. And when all is said and done, the irreducible fact remains that compared with the investment opportunities in industrial countries, those in underdeveloped countries are often bleak.

Wary and hardheaded

What do these conclusions imply for American foreign policy? Most obviously, efforts by our government to negotiate for the improvement of climates of investment will probably not be very effective in increasing the rate of investment. Nor will such expedients as special tax credits for American business income earned abroad do much, even if domestic corporate taxpayers would accept such discriminatory tax treatment. Private capital is both wary and hardheaded, and can neither be lured by underdeveloped countries nor urged by the United States government into situations which basically are not both politically stable (sometimes only a second-

ary consideration) and economically profitable (always a prime consideration).

In the second place, tariff reductions on imports from underdeveloped countries may be less useful than is frequently supposed. We have seen that our free list covers many of their exports. Those which suffer from our protective duties are producers of competing cotton, sugar, wool and copper. Alleviation of duties here, were it politically feasible, would do little to encourage rounded development, although it might substantially increase the earnings of the underdeveloped countries concerned. This is not to deny the real political and even psychological value of the reciprocal trade agreements program and the General Agreement on Tariffs and Trade.

Rounded development

Thus it would appear that not much can be deliberately done in the immediate future by our government either to increase the rate of private investment or to alter its direction in the interest of more rounded development. Fortunately the outlook for the future may be quite different. Granted that underdeveloped countries can achieve a first level of industrialization and by this fact demonstrate their new and attractive investment opportunities, Ameri-

can capital will flow of itself, easily and surely, into these areas. In most materialistic terms, "to him who hath it shall be given," and the more rapidly underdeveloped countries become industrialized, the more rapidly American capital will enter them. In such a phase of development, it will be unnecessary for the United States government to encourage capital to emigrate.

The government should concentrate all its efforts on expanding trade with underdeveloped countries in their new industrial goods. It should try to foreswear additional protection of domestic industry, and thus allow a more diversified trade, a more rapid rate of capital diffusion, faster industrialization for the underdeveloped countries and a higher level of living for everyone concerned.

Thus we cannot use conventional trade and investment as a freshly labeled panacea for the contemporary problems of the underdeveloped nations. Normal economic relations do have a healthy effect on world progress, and we can assist matters by enlightened trade and investment policies—on the part of both business and government. Beyond that, the position of the United States will require other operative modes in the broadest fields of world statesmanship. ■

NEW TRADE CHANNELS

by C. P. Kindleberger



Having grafted new international institutions on old trade mechanisms, the world now requires a consensus on long-run objectives

■ WORLD TRADE in the 19th century was carried out on the basis of three simple principles: free trade, the annually balanced budget and the gold standard. The first two were explicit; and while the rules of the gold standard game were never promulgated officially, they were clear enough. A country kept its exchange rate fixed, adjusting its money supply and shifting resources in response to changes communicated to it from the outside world.

The principles were larger than the reality. Government taxation and expenditure were limited and therefore fiscal policy could have little force. Free trade, observed mainly in Britain, was approximated outside that country only

in the brief years from 1860 to 1880, and the gold standard, in turn, was largely a rationale of the behavior of the Bank of England. Nonetheless, the system worked with reasonable efficiency.

World Wars I and II, the Great Depression of the 1930s and the Great Awakening of the postwar period caused the three simple rules to be junked. Both wars led to vast reconstruction problems. World War I, in addition, left a legacy in reparations and war debts. The Great Depression convinced countries that domestic rather than international considerations had to dominate fiscal and monetary policy if employment was to be maintained. And the Great Awakening has led un-

derdeveloped countries—many of them newly independent—to undertake developmental programs with little regard for their international position.

Less dramatic than these four influences, but no less important, has been the speed-up in technological change. Taking form in developments like the opening up of wheatlands by railroad and the cheap transport of grain to Europe by iron-clad steamer, this change was responsible after 1880 for the end of the comparatively free trade. But the pace of innovation has increased since World War I. New goods appear on world markets, evoking new demands and displacing inferior products. New ways of making old goods are cutting costs and altering the structure of trade. And finally, new people learn old ways of making old goods, and are willing to do it more cheaply. For all three reasons, change is required in existing channels of trade, more change and faster change.

Note the sharp difference between World War I and World War II. The reconstruction period after the first great war was designed to recreate the world as it had existed in 1914, to restore exchange rates, levels of trade and, if possible, the sense of security that the world has lost. After the second war, on the other hand, there was no yearning to return

to the 1930s. It was universally agreed that the 1930s were unsatisfactory, both nationally and in the operation of the international system. Plans were made to construct new rules and institutions to replace the simple principles of free trade, balanced budgets and the gold standard.

It is an important question in social science whether social institutions, including economic, can be constructed *de novo* or whether they must evolve, like the gold standard, through slowly cumulating experience. Where the factual situation is clear and where there is unanimity of purpose, it may be possible to create full-blown institutions. But where uncertainty reigns and countries have conflicting needs, it may not be possible to write rule books for institutions and turn them loose. Nevertheless, during and after World War II, the United Nations under the leadership of the United States tried to build the institutions of a new world economic system.

Constitutions were drafted for an International Bank for Reconstruction and Development, whose name indicates its functions; and an International Monetary Fund to iron out short-run balance-of-payment difficulties of particular countries. Specialized agencies were created or adapted from pre-war counterparts for agriculture, health and regulation of air trans-

port. Finally, the UN drafted a charter for an International Trade Organization which established rules for the conduct of international trade.

Unqualified success

The IBRD—the World Bank—is an unqualified success. Paradoxically, it provided little reconstruction, a task that proved much larger than contemplated. Before the Bank could begin to operate properly, it was necessary to raise the capital of the Export-Import Bank by \$3 billion to furnish a \$3.75-billion loan to Britain and, above all, to organize the European Recovery Program at a cost of close to \$15 billion. It was also necessary to reconstitute an effective monetary exchange, even though circumstances prevented the simple solution of free convertibility.

The World Bank, moreover, does not operate alone in the field of development. There is intergovernmental assistance for development as well as for reconstruction and, since the Communist attacks on Greece and Korea, for defense. Although private lending in foreign government bonds, important prior to 1914 and in the 1920s, has shrunk to almost nothing, there is some private movement of capital connected with development, particularly in countries producing primary materials such

as oil. But the World Bank has gone far in providing capital for development purposes. It has evolved standards for judging development programs and particular projects, worked with private finance and created ancillary institutions like the International Finance Corporation to meet the burgeoning needs. At the October, 1958 meeting at New Delhi, plans were made to increase the capital of the World Bank, perhaps to double it, and to create a new ancillary institution for less-bankable loans.

The International Monetary Fund had a slower start. When it opened in 1947, it was called upon to make big advances to a number of countries in Europe to prevent their collapse. After this, however, it stood at one side and let the World Bank go its way. The Fund took no part in the European Recovery Program, nor in the monetary arrangements involved under it for a European Payments Union. While big reconstruction and development needs cried to it, the Fund held back to wait for short-term needs which would not engulf its resources. Finally, in 1956 and 1957, with the Suez crisis and with the introduction of new personalities into its leadership, the Fund took a more pragmatic and active view of its opportunities and responsibilities. It loosened its rule and

committed its resources more freely. After assisting the British and French at Suez, it later collaborated with the Export-Import Bank and the U.S. Development Loan Fund in arranging "package deals" to meet pressing crises in France, India and Turkey.

The American refusal to approve the International Trade Organization charter ended that brave hope. The charter of the ITO provided for the reduction of tariffs and the elimination of trade quotas and preferences, but it was also obliged to specify the circumstances in which exception to the rules would be permitted. Other countries wanted permission to impose import restrictions in case of stringent balance-of-payment difficulties and where development opportunities beckoned. The United States in its turn sought to make all nations accept its "escape clause" authorizing withdrawal of tariff concessions where imports caused or threatened serious injury to an existing industry. Each nation wanted the other countries to adhere to the rules, while it took advantage of the exceptions. But even the internationalist-minded bodies in the United States like the U.S. Chamber of Commerce and the National Foreign Trade Council were afraid of the charter, fearing that the United States would stand by the rules while other

countries used the exceptions.

Following the defeat of the ITO charter, the United States concluded the General Agreement on Tariffs and Trade, not a treaty and thus not requiring Congressional approval. In 1957 it was hoped to give the organization more certain status by establishing an International Trade Commission to supervise the agreement, but Congress was again uninterested. The General Agreement, or GATT, as it is called, has limped along from year to year with a limited budget and staff, but it has performed useful tasks in furnishing a place to negotiate tariff reductions and a forum in which to complain about departures from the rules.

Resistance to change

Four major problems face the world in moving toward a workable system of trade: agricultural adjustment, stabilization of primary-product prices, regional discrimination and the speed of technological change.

There is effective resistance to change in the agricultural community because it has more votes than its economic importance warrants. This is because of Engel's law. Engel, the statistician, not the revolutionary, discovered that as income increases, a smaller percentage of income is spent on food. Growing economies, there-

fore, turn from agriculture to manufacturing and the service industries; but the vote continues to represent the past.

In the 1880s and 1890s the French, German, Italian, Swiss and Austro-Hungarian peasants and farmers raised tariffs to keep out cheap overseas wheat at the expense of the urban populations which had to pay more for their bread. Today, farm populations all over the world, including those in the United States, inhibit the rational allocation of resources in the interest of preserving the family farm and the rural way of life. The United States has imposed quota restrictions on agricultural imports in defiance of its obligations to GATT; so have Germany and many other countries. The European Common Market calls for a "special regime" in agriculture. The Free Trade Area, which the British propose as a broader substitute for the Common Market of the Six, wants to leave out agriculture altogether, to the dismay of the Netherlands and Denmark. United States disposal of surplus agricultural commodities in underdeveloped countries is supposed to be undertaken outside normal commercial channels, but to competitor countries like Canada and New Zealand it inevitably looks like dumping.

Primary products, particularly those of underdeveloped countries,

fluctuate more widely in price and volume than manufactured goods. Underdeveloped countries depend more, as a rule, on exports for their income than developed countries do; thus their total incomes fluctuate widely. Many countries are willing to sacrifice specialization and greater trade opportunities if they can thereby gain greater stability. Price and income stabilization, therefore, may be necessary to the preservation of an optimum world trade, but the techniques of price stabilization are underdeveloped and prices are always set too high. The stabilizing agency ultimately finds itself swamped in commodities, and the scheme collapses.

Illogical distinction?

GATT prohibits discrimination except where it leads to customs union. The distinction has been attacked as illogical, but it can be argued that 99-per-cent preferences differ not only in degree from customs unions, which provide for 100-per-cent preferences, but in kind. Customs unions mean the abandonment of tariffs among the specified countries. Nonetheless, problems of discrimination occur in customs unions organized on a functional scale, like the European Coal and Steel Community, or organized with a limited group, like the Common Market. This is also true of free trade

areas where all countries keep their own tariffs, but trade without tariffs among themselves.

We can observe the strains and irritations resulting from the first 10-per-cent reduction in internal tariffs, which took place among the Six on January 1, 1959. The rest of Europe is anxious to broaden the Common Market into a free trade area and thereby reduce discrimination. The whole world is entering a new era in which various countries, or regional groupings, will be learning how to trade with other regional groups. New trade channels will be cut in the world and old ones silted up.

We must learn more about living with technological change. Britain clung to free trade in the 1880s when cheap wheat was available from overseas. The landlords lost revenues and the landless agricultural workers were driven into the urban slums. No government today will permit such vast transformations without trying to ease their social effects. Internal investment funds or action to help depressed areas hit by imports need to be worked out. The dilemma is that neither rapid adjustment nor complete resistance is the appropriate answer to major technological changes. No panacea or new institution can solve the trade problems in one formula or even a dozen. They re-

quire constant negotiation among various groups *within* countries and *between* countries. This can succeed only if an effective number of the voters within and negotiators between countries are willing to operate on the basis of long-, rather than short-run considerations.

It is similarly evident that there are no easy principles for solving the problems of finance. Appetites in developing countries should not be permitted to grow with eating, since no amount of finance is ever enough. The Bank, the Fund, national and United Nations foreign aid and private direct investment are providing a substitute for the international bond market of pre-1914.

But, countries must limit their investment programs to the resources they can provide at home or borrow from abroad, rather than go beyond this sum and muddle into inflation. Advanced economies must continue to make finance available to assist the others in meeting their aspirations. Here again the requirement is not for new constitutions, new institutions or the enactment into law of old rules of thumb. A workable system of world trade and finance must evolve from an emerging consensus of what constitutes approved behavior in the long-run interest of each country and the world. ■

Eugene R. Black— Banker-BUILDER

■ THE EDUCATION of a man is compounded of seeming irrelevancies that require only the touch of irony to lose their neutral character and become important. Even today it seems to be an idle biographical curiosity that Eugene R. Black, President of the International Bank for Reconstruction and Development, grew up under the last shadows of the reconstruction South and that he was a grandson of Henry W. Grady, editor of the *Atlanta Constitution*.

But that childhood experience was perhaps more valuable than the Georgian's career in a New York bank. The IBRD, popularly known as the World Bank, is chiefly concerned with financing key economic projects in underdeveloped countries, and the South of Black's early years can accurately be defined as underdeveloped. If

With each issue CHALLENGE profiles a person whose thinking affects the pace of the United States economy.



the New York banker knew what was financially possible, the grandson of Grady, a leader in the South's rise from economic stagnation, also knew what was humanly possible—and necessary.

Black, 60, was called to the World Bank as U.S. Executive Director in 1947 with the responsibility of selling the Bank's bonds on the private money market. He had been a brilliant success with bonds, having sold quantities of foreign bonds in the Twenties which unfortunately went bad, and having later managed the Chase National Bank's bond portfolio. He was equally effective with World Bank bonds, with the added satisfaction of seeing no defaults, and, in 1949, he was named successor to John J. McCloy, who became U.S. High Commissioner in Germany.

In 1944 a British expert described the Bank in terms that are still true today: "a character-

istically Rooseveltian institution: that is, a fascinatingly ambivalent blend of the revolutionary and the conventional, bold but tentative in conception, a little vague, a little self-contradictory even, but also flexible and capable of organic growth." The Bank was an afterthought of the Bretton Woods conference, which produced the International Monetary Fund to stabilize the world's currencies.

The late Lord John M. Keynes explained: "It's all very simple if you understand that the Bank is a fund and the Fund is a bank."

The Bank has loaned about four billion dollars for such projects as the Yanhee power, flood control and irrigation development in Thailand, railway reconditioning and natural gas exploitation in Pakistan, an Austrian hydroelectric complex and Colombian roads. Black illustrates the fructifying effect of these loans by noting that they evoked even greater local capital expenditures for labor and material.

One of the banker's prime functions is to say, "No," a word which Black's heritage has prepared him to say gracefully. With his tall, slim frame draped in London tailoring, Black has journeyed diplomatically to most of the 68 member countries, bearing more negatives than affirmatives.

At the New Delhi Bank meeting last October Black said: "The

Bank's story is a quiet one—very different from the clamorous tales we have been reading in our newspapers in recent months." But the IBRD has, on occasion, got close to the clamor, and its withdrawal from the Aswan Dam project was an important factor in Nasser's Middle Eastern violences.

Black's awareness of the political and human imponderables has led him into actions and expressions that seem to contradict a banker's principles—but only after he has made provision for the minimal needs of solvency. The Bank runs training courses for senior and junior government officials because it recognizes the need for effective local leadership as well as for capital funds. It studies local needs and actually suggests those projects which it will finance.

If Black has the faith of his function, he is also aware of problems beyond the Bank's institutional scope: "Now economic development, too, destroys as well as creates. It destroys old habits and attitudes . . . even as it fills human needs; what is destroyed is often as important as what is created." But the dangers of progress are the lesser evil, compared to the dangers of passivity, and President Eisenhower's support for increased World Bank capitalization indicated that the only direction is forward.—D.F.

The intensifying challenge to our international position requires that we re-examine our comfortable way of allocating resources



THE HARDWARE OF FOREIGN POLICY

by Klaus Knorr

■ THE PURPOSE of U.S. foreign policy is to adjust outside world reality as much as possible in favor of American interests and preferences. Our interests are of course manifold; to express them in general terms, we want to live in a world in which the United States as a political, cultural and economic system is able to prosper. Irreducible requirements are that this country preserve its independence, be spared a crippling nuclear war, and not be reduced to an isolated island in a world otherwise dominated by ideas and forces—such as those of the Communists—deeply inimical to American well-being. If, on behalf of these ends, we want to influence other peoples' behavior, we must rely on the usual assortment of means: communication, diplomacy, economic rewards and penalties, and military power.

Many of these means require no use of economic resources, or do so only incidentally and in trivial amounts. Thus, the attitudes of the outside world toward the United States depend largely on the image that foreigners hold of us; and this image, in turn, depends on what we say about ourselves and others, on our deportment at home as well as abroad. Again, the burden of military conscription, though also imposing economic costs, is mainly the limitation of the personal freedom of drafted individuals. Economic resources are only slightly and indirectly involved in the display of diplomatic or propagandist skill.

Yet economic resources and, more broadly, the state of the American economy are a crucial factor in international affairs. In two respects, to be sure, no direct

resource allocation to foreign policy or defense is required. The allocation of economic resources for domestic purposes, public or private, often has important side-effects on the interests of the outside world, when for example, import tariffs and farm price supports restrict the market for foreign goods. For another, the record of the American economy regarding economic growth, technological innovation, stability and income distribution is all-important in establishing the international prestige of the United States. Foreigners, in this modern world, are exceedingly sensitive to the competence we show in managing our contemporary needs and techniques.

Over a wide range, however, foreign policy and national security do absorb scarce resources directly. To measure this outlay *in toto* is impossible, for not all allocations have budgetary designations and some are hidden or inseparable from domestic uses. The shock of *sputnik* and the Russian ICBM, for instance, provoked widespread dissatisfaction with American education. But it is impossible to say how much of increased expenditures for education represents allocations for essentially nondomestic purposes. Again, we know that more than 40 government departments and agencies are, in one way or an-

other, drawn into matters of foreign or defense policy. Yet we do not know the proportion of the costs of maintaining the federal government which goes toward the handling of external affairs.

Some resource allocations to foreign affairs are, of course, more direct, and these outlays have multiplied at a stupendous rate since the war. To give one example, the number of employees in the Department of State shot up from about 700 in 1921 and 1,000 on the eve of World War II to over 11,000 in the mid-1950s.

More importantly, federal expenditures on national security soared from \$1.3 billion in 1939 (\$3.3 billion in 1957 dollars) to more than \$46 billion in 1957. Although the national income grew over the same period, the proportion of the gross national product formally allocated to national security rose from 1.4 per cent in 1939 to about 10.5 per cent in 1957. Since the end of the war, furthermore, the federal government has extended net grants and credits to foreign nations and international institutions amounting to almost \$40 billion by the end of 1957, while such transactions were uncommon and minute before the war. This vast increase in the cost of managing the country's relations with the rest of the world reflects the extraordinary and very rapid expansion of

American commitments overseas.

The increase in these expenditures resulted chiefly from the extent to which the structure of World power has become bipolar; the USSR is backing its unremitting drive to extend Communist rule with great resources and skill. Other factors are the high costs of the race in weapons technology and the fact that the economically underdeveloped world is able to exploit the great power rivalry by making forceful demands for economic assistance.

Is U. S. skimping?

The magnitude of current outlays on foreign affairs is of itself not an accurate index of whether we are spending the right amount. Looking only at the huge requirements, most experts infer that the United States is skimping. They do so on several grounds:

- The level of resource requirements is to some extent set by our opponents, whose spending on military and foreign affairs is very large and still expanding, and who cannot be assumed to be using their resources less efficiently than we are.

- The propensity of the American electorate to release resources for foreign policy purposes is not notably high and the amount actually released has not been easily wrested from other uses.

- The United States does not

maintain as versatile a military establishment as the Soviet Union, and this limit to our military effort has been frequently justified on cost grounds.

- In contrast to the immediate postwar period, our economic aid program, as distinct from military assistance, has declined to less than one billion dollars a year.

There are, however, weighty counterconsiderations to be noted. Should the United States be unable to mount more than a mediocre, or even a downright ineffective, effort in diplomacy and communication, simply adding more economic resources in support of foreign aid and defense could compensate for this weakness only up to a point. Money and resources do not rectify poor policies. Economic resources can also be employed wastefully. Any inference suggested by the mere volume of resources allocated to such purposes, therefore, must be checked in terms of the efficiency with which these resources are administered.

Advocacy of increased resource allocation to external affairs is frequently challenged on the grounds that this burden would undermine the nation's economy and hence ensure defeat in the end. The chief argument is that the high level of income taxation would impair the incentives to enterprise, hard work, saving and

investment. A lowering of productivity or a deceleration of economic growth—the foundations of national strength—would be the dire result.

Conceivably, a free enterprise economy made largely subservient to foreign policy requirements might crack under the strain. But we know very little about the relation between tax rates and incentives, and recent empirical studies have found little evidence that high post-Korea tax rates weakened the vital incentives of our economy. It is a reasonable hypothesis that taxes which secure for defense and foreign affairs a slice of GNP of the magnitude of 14 or 15 per cent would have only marginal ill effects, and we are far from that level.

Chaotic tax structure

Whatever marginal dulling of incentives might take place could be moderated by changing the traditional and rather chaotic structure of taxation. At any level of taxation, it is possible to reduce the impact of taxes on productive incentives and saving. There are also compensatory benefits to the economy flowing from large and relatively stable expenditures on foreign policy. One benefit, albeit intermittent, arises whenever business prosperity is threatened by an insufficiency of private demand for consumption and investment.

A more abiding advantage follows from the large and increasing proportion of defense outlays on military research and development. Progress in military technology often improves technology for civilian purposes as well, as the examples of atomic energy, aeronautical engineering, electronics, metallurgy and fuel development indicate. Foreign aid and credits also lead to increased trade and private investment abroad.

The real problem is not whether large allocations to foreign policy requirements weaken the economy, but whether we want to foot the bill. The problem takes two forms. We may as voters support larger expenditures but deny corresponding increases in federal taxes. In that event, inflationary pressures will result whenever the economy is operating at full employment, and such pressures, if heavy and prolonged, may indeed debilitate the economy. Alternatively, citizens may even refuse to support larger expenditures because they are not willing to make the sacrifice. As President William Howard Taft once observed: "Too many people don't care what happens so long as it does not happen to them."

The question is sometimes raised whether a democratic society will support external affairs adequately except in times of major war. This is a most serious question since

nuclear weapons and the consequent need for deterring rather than "winning" major wars demand a huge peacetime rather than wartime effort, while the Communist ruling elite gives high priority to foreign affairs and is able to force its preferences on populations that need not be consulted in democratic fashion. *But democratic publics can learn.* Indeed, the American effort since the Korean crisis has been appreciable, if not sufficient. Yet, in view of the usual detachment of the mass of citizens from foreign policy matters, the necessary burden will not be shouldered voluntarily unless the need is represented to the public by the most forthright and imaginative leadership, not only in the White House but also among opinion leaders throughout society.

In his brilliant book, *The Affluent Society*, Prof. John Kenneth Galbraith of Harvard has recently presented a different thesis to explain why the American public is unlikely to do enough, in the absence of dramatic emergencies, to ensure its survival. At this stage, he argues, economic growth in the affluent United States depends primarily on persistent artificial stimulation of private wants for more and more goods and services. Because of the attitudes underlying this "dependence effect," demand will always increase along

with the economy, and resource diversion to foreign policy purposes will be resisted and slighted even at times when the GNP is increasing.

Long-range outlook

If this thesis were true, the long-range outlook for the United States would be exceedingly bleak. There is every indication that the Soviet Union and Communist China will succeed in adding to their economic capacities much more rapidly than the United States, and that they will continue to divert a large proportion of their expanding industrial capacity to external purposes. They are thus steadily increasing the pressure on the free world in general, and on the United States in particular.

Yet Prof. Galbraith has painted too gloomy a picture, greatly underestimating the American capacity for adaption. To be sure, it would be irresponsible to deny the darker areas in the national will. The struggle for national survival is much more likely to become tougher than milder. The American people will have to adjust themselves to substantial sacrifices not only in terms of private income after taxes, but also in terms of giving foreign affairs more priority in their attention and in according the federal government a larger role in economic

life. The release of productive resources on an increasing scale in order to ensure external survival will be facilitated if we manage to avoid substantial recession, and if we foster technological innovation and accelerate the average growth of the national product.

None of this can be done, or done sufficiently well, without imaginative and vigorous federal action, especially through economic policy. Such a prescription will be unwelcome in a society dedicated to private enterprise, but it is far from impossible to foster economic growth and increase public expenditures while maintaining the private enterprise system intact. We know there would be no chance for private enterprise if this country did not survive.

In a world where consistency takes the form of serial contradictions, the bitterest task for the United States requires little sacrifice of substance. The first necessity is hard thought, precisely

what we prefer to avoid. We are even less willing to think about an adequate civil defense program than we are to pay for it, although a resource reallocation for that need would cause some fiscal discomfort.

Again, we should think long and hard about whether the United States should be satisfied with the average rate of economic growth that has come about spontaneously or whether—in view of much faster economic expansion in the Sino-Soviet bloc—we should speed up economic expansion in this country. To do so might well require measures deeply inimical to American traditions; and we might prefer to leave things as they are. But we should not make such a decision before dispassionately comparing the effects of alternative courses of action.

Thus, the allocation of hard and new thought is the first requirement of a strong American posture. ■

Answers to Challenge Quiz

See page 95

- | | |
|----------------------------------|-----------------------------------|
| (1) True (<i>see page 20</i>) | (7) True (<i>see page 58</i>) |
| (2) True (<i>see page 43</i>) | (8) True (<i>see page 84</i>) |
| (3) True (<i>see page 64</i>) | (9) False (<i>see page 72</i>) |
| (4) True (<i>see page 48</i>) | (10) False (<i>see page 26</i>) |
| (5) True (<i>see page 8</i>) | (11) False (<i>see page 14</i>) |
| (6) False (<i>see page 78</i>) | (12) False (<i>see page 32</i>) |

THE ALPHABET OF AID

The constant creation of new agencies indicates that we have not made up our minds on the type and extent of foreign aid

by Joel B. Dirlam and Rudolf R. Rhomberg

■ THE NATION and the government have been of several minds about foreign aid, and all of these theoretical positions have taken on palpable form as governmental offices. The list is unusually luxuriant, even for Washington, in alphabetical combinations and cryptic syllables: ECA, TCA, MSA, FOA, ICA, DLF, Eximbank, IBRD and IMF. Included in this heterogeneity are the newly born, the mature, the declining, the dead and buried, and the dead and stirring.

Congress made another of its recurrent efforts to achieve a definition by altering C. Douglas Dillon's administrative personality last year. It removed the "Deputy" from his title of Deputy Under Secretary of State for Economic Affairs and fixed his annual salary at \$500 more than that of the Director of the International Cooperation Administration. Congress assumed that it thus had answered

the question of who was to be master of economic aid.

But there is no indication that this anthropomorphic approach will unravel all the complications. We still have a major conflict between the need for a nimble conduct of day-to-day diplomatic affairs on the one hand, and for the sound administration of a long-run development program on the other.

The ICA is the major single dispenser of nonmilitary economic aid. A semiautonomous unit of the State Department, it allocated a billion dollars, for the most part in grants, in fiscal 1958. Some of these funds went to defense support, aid which strengthens the economies of allies and permits them to maintain more adequate military establishments. The Defense Department, however, controls direct military assistance in weapons and material. Other agencies handle other phases of eco-

conomic assistance, many in the form of loans.

The primary purpose of the Export-Import Bank is to foster American exports, but it has found itself competing with other agencies in financing economic development. Its career illustrates the pragmatic responses occurring when the nation's policy needs changed faster than official policies. Eximbank was created in 1934 to help finance exports to Soviet Russia, a simple purpose subsequently overshadowed by the more complicated goals of a more complicated time. Its bilateral aid commitments in fiscal 1958 totaled \$733 million.

While Eximbank remains autonomous, Congress created a new agency in 1957, the Development Loan Fund, designed to do frankly what Eximbank does illogically. Unlike the ICA, however, the DLF, which began with an initial appropriation of \$300 million, is relieved of the disrupting requirement of submitting annual requests for funds to continue its existence. And unlike Eximbank, which is held to strict business principles, the DLF can accept loan repayment in local currencies, a boon for the underdeveloped borrower with a weak currency.

The United States also participates importantly in such international organizations as the International Bank for Reconstruction

and Development (see *Challenge Profile*, page 70), the International Monetary Fund and the UN Technical Assistance program, all operating in the general area of international aid. This double role is extended to the narrower field of scientific aid, with the U.S. Atomic Energy Commission competing with the International Atomic Energy Agency. The American chairman of the international agency has complained, for example, that the AEC has virtually undermined its program of multinational aid by negotiating AEC bilateral agreements. Yet the IAEA was formed on American initiative.

A certain amount of personal coordination of these multifarious activities is achieved through Under Secretary Dillon. In his State Department dignity he reviews the military and economic assistance programs, and can keep himself informed on any other relevant matters like atomic energy. He is also chairman of the Development Loan Fund Board, conducts liaison with Eximbank and is alternate U.S. governor of the IBRD, popularly known as the World Bank, and the International Monetary Fund. It is obvious that Dillon's administrative personality suffers dilution among the wide reaches of his responsibilities.

The consequences of the lack of coordination are serious. Appli-

cants have the inducement of playing off one source of funds against another. It is also difficult for the agencies to apply uniform long-run development criteria to applications for funds, if indeed they are disposed to use such criteria. Nothing in their statutes requires the agencies themselves to subordinate their policies to a consistent set of specific long-range objectives and, indeed, the practice of annual appropriations makes it impossible for so important an agency as the ICA to look beyond the administrative present. Conflicting objectives prevent orderly sequence and area distribution of loans and grants.

"Voluntary" system

Some American policies conflict with the economic improvement of underdeveloped areas. Reciprocal trade agreements are not universally applicable, and thus cause inequity of treatment for those who are excluded. The imposition of quotas on the import of lead, zinc and sugar sabotages the efforts of the ICA, Eximbank or DLF to aid Latin America. The Interior Department administers the "voluntary" oil import quota system, justified on the transparently specious ground of national defense, which sacrifices international interests for the sake of oil market stability at home.

Other American policies have

a chameleonlike character that sometimes supports and sometimes hampers our aid programs. Thus the disposal of surplus agricultural commodities presents a series of complex problems. These products can be of enormous assistance to food-poor countries but they also reduce the markets for nations that depend on food exports for revenue. The theoretical complexity of the problem is reflected in the administrative complications, and those concerned with commodity disposal include the Department of Agriculture, the Commodity Credit Corporation, the State Department, ICA and Eximbank.

The situation has evoked considerable ingenuity in maximizing the benefits of the program, and if it was necessary to extend the bureaucratic interweavings, the results have sometimes justified the confusion. Thus Congress has passed laws permitting payment in local currencies for the surplus products, with the money being used for economic development projects or loans to local businessmen. The ICA reviews all proposals for the development use of funds, while Eximbank passes on the loan applications.

The lack of coordination among the American agencies is matched by a lack of clarity in their relations with the international organizations. It is impossible to

say just where the responsibility of the one group begins and that of the other group ends. The World Bank has tended to restrict itself to loans to build up the "basic economy"—ports, roads and electric power projects. Yet Eximbank has loaned Ecuador and many other countries millions for highway construction and other infrastructural projects.

Another obstacle to efficient development assistance is the failure to coordinate private investment with public grants and loans. Public assistance to areas or industries that can count on private funds should be minimized. Unless there is a hostile political situation, private capital will launch itself into petroleum exploration or refining. Countries like the Arabian sheikdoms which enjoy mineral royalties should need less help, while the extensive investment and enlightened management of the United Fruit Company in Guatemala and Panama relieves the public sector of much of the aid burden. We could raise the productivity of our global aid program if we were to compile and analyze carefully the investment plans of private firms.

Variety vs. logic

The history of our aid programs in general, like that of Eximbank in its smaller compass, has been characterized more by variety than

logic. The Economic Cooperation Administration, created in 1948 to administer the Marshall Plan, was remarkably effective in its relatively simple objective of reviving a developed and homogeneous area. More specific Communist pressure, taking such ugly forms as the Korean episode, imposed new responsibilities that included frank military assistance. The ECA was transformed into the Mutual Security Agency to carry on the greater task. Meanwhile, the Technical Cooperation Administration, created within the State Department in 1949, was charged with technical and economic aid in Latin America, the Middle East, Burma and Indonesia. The MSA Director was responsible for coordinating the TCA program and the military assistance operations of the Defense Department.

Congress attempted to improve the tenuous coordination by changing the MSA into the Foreign Operations Administration in 1953. The new agency took over the technical assistance program of the State Department and had supervisory authority over Defense's military assistance, but this centralization proved temporary. In 1955 the Defense Department got back its powers over military aid, and the independent FOA became the International Cooperation Administration as a subordinate agency of the State Department.

Yet the ICA Director, owing perhaps to his former autonomy, has remained a powerful figure, and Dillon's salary increase, which the former banker did not need as a work incentive, was meant to counter the residual force of the ICA. Thus the centralization of economic policy, failing in the case of the FOA, was transferred to the office of the State Department's Under Secretary of State for Economic Affairs.

Untidy political events have reflected unkindly on the effectiveness of our foreign economy policy. Nasser's seizure of Suez showed that decisions about economic development, like the withdrawal of the Aswan Dam loan, can have shocking consequences. Other developments, the intensified Sino-Soviet program of assistance to underdeveloped areas, the hostility aroused by U.S. quotas on lead and zinc imports, and Vice President Nixon's reception in Peru and Venezuela, should have enforced the lesson.

Long-term affair

What possible solutions may be suggested for this multidimensional complexity? It would be naive to assume that a mere reshuffling of the agencies could suddenly eliminate disorder. Nevertheless, there are changes which could result in substantial improvements. First, it seems clear

that military aid should be finally and definitely separated from economic aid both in the budget and in administration.

But it is necessary to go further. The economic aid program can be carried on effectively only if there is general recognition that it is a long-term affair and that it will be continued on a large scale. We must somehow concentrate U.S. policy and operations in one organization, which will then be able to conduct liaison with the multinational agencies and allocate funds accordingly. It would be similar to the Foreign Operations Administration, which Congress has rejected less than four years ago. But it was the Congressional misreading of the future that led to FOA's demise, and long-term development assistance will replace the old-style foreign aid which served only short-run purposes. The American contribution will increasingly be looked upon as a continuing investment project rather than as a temporary hand-out.

Another deficiency of FOA was the failure to define its role vis-à-vis the State Department, the Department of Defense and other agencies. If Congress created a Foreign Economic Administration at the departmental level it could avoid the paradox of FOA, which was subordinate in policy matters to the State Department and yet

had authority to supervise Defense Department military assistance programs. The proposed agency would have full authority for formulating and carrying out our long-run foreign economic policy, but would have nothing to do with military assistance. It would absorb Eximbank, DLF and ICA, and it would direct the surplus commodity disposal program. Organized on a regional basis, it could insure the fullest possible integration with programs of multinational agencies and regional groups.

Economic choice

The agency would be able to select from a wide range the kind of assistance most desirable for applicants. It would have funds ranging from hard loans in dollars through local currency loans to outright grants. Interest terms and maturities would likewise be flexible. Such an agency would be able to make an economic choice among countries and projects in order to maximize the benefits from a given total of funds appropriated by Congress, with the full knowledge of what private investment and multinational

agencies were currently proposing and accomplishing.

Applicants, knowing that there was only one source of funds, would be stimulated to prepare sound development programs. Since this new organization would be relieved of pressure to adjust its policies to short-run diplomatic considerations, it could avoid the embarrassments we have suffered when temporary considerations determined the disposition of applications like the Polish loan. In retrospect, we have gained little by allowing our long-run policy to be so distorted.

It is true that the main difficulties with our foreign assistance program—multiplicity of objectives and lack of unified administration—reflect the democratic process. However, it would be in our best interest to show the rest of the non-Communist world how these difficulties can be overcome in a democracy. We do not have to prove that democracy grants more freedom than other forms of government. What we may have to prove is that democracy does not necessarily mean less efficiency in the problem of peace and survival. ■

Space and Alaska

SCIENTISTS REPORT that Alaska may be the best possible site in the Continental United States for launching space ships with human passengers. The deadly rings of radiation that encircle the globe are less concentrated near the magnetic poles, because radiation particles tend to be deflected into bands in the vicinity of the Equator.



SPECIAL INTERESTS AND GENERAL POLICY

Public participation and vigorous political leadership are the antidotes to the selfish demands of narrow groups

by Delbert A. Snider

■ IN NO OTHER AREA does the concept of an integral national interest have as great an opportunity for expression as in foreign policy. Every country is a conglomerate of individuals and groups with different cultural, political and economic backgrounds and interests. In an ideal foreign policy, diversity gives way to unity, with the national community as an entity speaking to the world of its ideals and aims.

In practice, however, the concept of the national interest as something apart and different from the collection of different individual and group interests often conflicts with the realities of policy-making. One reason for this is that the national interest is sometimes difficult to define. In contrast

to its general, rather vague, and in some respects even mythical character, the interests of particular groups or segments emerge as concrete and easily identifiable. It is not difficult for any group to persuade itself that its interests and the national interest are identical, or at least compatible.

Conflict between the interests of particular groups and the national interest is magnified in democratic societies by the processes of policy-making. And of the various forms of democratic organization, the American system is perhaps most vulnerable of all in this respect. For our system is *structured* to reflect in the policy-making process the interests of every group, region or sector able to express itself. This is nearly as true

of foreign policies as of domestic policies, even though foreign policies are technically the responsibility primarily of the Executive Branch, whose position offers much greater protection against the pressures of special interests than that of the Congress.

The President and his Cabinet can resist a fragmentary approach to foreign policy and take the lead in a broad approach that supersedes parochial views. But the inescapable roll of Congress in the making and, especially, in the implementation of foreign policies leaves it vulnerable to narrower influences. A Representative or Senator is not, of course, the spokesman for just his constituency; he also takes a suprasectional and supraregional view. It is, nevertheless, at the Congressional level of our government that the pressures of special interests are concentrated and the response most sensitive. As a consequence, policies are shaped not infrequently by a melange of special-interest pressures.

The common result of compromise between differing interests, or between sectional and broader national interests, should not be surprising. It is, however, no less disturbing for this, and especially in the area of contemporary foreign policy. It is not too excessive an exaggeration to say that in recent years the most serious weak-

nesses of American foreign economic policies have developed as a result of the compromise of the national interest in favor of the interests, real or imagined, of particular segments of the population.

Tariffs and related foreign trade controls, especially import quotas, are the classic example of the conflict between special economic interests and foreign policy. The conflict is almost "pure" because of the fact that the economic interests of the *national economy* as a whole more often support, rather than conflict with, commercial policy in its dimension as part of foreign policy.

One of the fundamental tenets of American foreign policy is that our political security is intimately related to the economic strength of our allies and the prospects of economic growth for the vast numbers of economically underdeveloped and politically uncommitted countries of the world. How do our tariff policies fit into this picture economically, and politically and psychologically?

From a substantive economic standpoint, the commercial policies of the United States have a direct bearing on the strength of the free world economy. The United States is the world's largest importer and exporter, providing a market for more than one-eighth of the world's exports and supplying more than one-fifth of the

world's imports. American imports of goods and services furnish the rest of the world with its current dollar earnings, the chief continuing means of paying for imports from the United States.

National consensus

The chief determinants of the volume of American imports are the structure of the American economy and the level of its income and employment. It is fortunate for our foreign policy that there is a virtual national consensus in the United States on the desirability of maintaining high levels of income and employment. The same consensus is not found with respect to commercial policies. Although import tariffs and quotas and related restrictive measures do not exert the same degree of influence on the volume of American imports as does the level of income and employment, they have nevertheless served as important barriers to imports. To the extent that we deny our foreign friends free entry into the American market, we deny them an opportunity for greater prosperity and growth—that is, we directly contradict a basic tenet of our foreign policy.

In political and psychological terms, our official international policy of the postwar years has been to promote an expanding world economy free of quantita-

tive restrictions and discrimination. The United States has been the leading spokesman and most vigorous exponent of international cooperation designed to reduce tariffs and eliminate quotas. Yet, beginning only two or three years after the war's end, the United States in its own commercial policies has consistently violated the spirit of its official proclamations, and has even occasionally broken specific international commitments. Our allies have been understandably bewildered. How can the acknowledged economic and political leader of the free world talk one way and act another, and still retain its integrity?

The standard answer of embarrassed representatives abroad is in terms of the realities of domestic politics. Translated into more concrete terms, this means that the voices of special interests have shouted down the pleadings of those responsible for the conduct of our foreign relations. Because of the political pressure exerted by these special interests, we have, since 1948, shackled the Reciprocal Trade Agreements program with the "peril-point" and other "escape" clauses permitting tariff increases. We have also refused to accept international agreements and organizations espoused by our government, such as the Havana Charter and the Organization for Trade Cooperation, and periodi-

cally threatened to scuttle liberal commercial policies as a principle and revert to the neolithic practices of the high tariff era.

The irony of the situation, if its more serious aspects can be overlooked, is the utter insignificance of the special interests served, compared to the national interests disserved. This is not to deny that real hardships might be caused to the workers and investors in some industries by the lowering of tariffs. But the industries adversely affected are generally small and already weak from declining domestic demand; the number of workers and investors involved is a negligible proportion of total employment, and, finally, measures are readily available for relieving any undue hardships suffered in particular cases.

Reflection on sanity

Fortunately, in recent years there has been a growing number of special interests in favor of more liberal commercial policies. Heavy, capital-intensive industries are generally more export-minded and less concerned with import competition than are the lighter, labor-intensive industries whose comparative international cost position makes them most vulnerable to import competition. It is, nevertheless, a sad reflection on the sanity of the world's leading political power if one of its principal

instruments of foreign policy is allowed to be shaped by the varying relative strength of special-interest pressures.

Closely related to our commercial policy as an integral part of foreign policy is our policy with respect to furnishing capital to our friends and allies. Continuously since the inception of Lend-Lease during the early stages of World War II, the United States has followed a policy of extending foreign economic and military aid. In some of the postwar years, such aid was the principal instrument of our foreign policy. The billions of dollars of grants and loans extended to Europe under the Marshall Plan, and to Greece during its civil war, for example, were the major props of our policy to forestall the economic and therefore political collapse of these countries. Although after 1950 the emphasis shifted from economic aid to military support, we have recently begun to realize that adequate economic assistance to underdeveloped countries is perhaps the single-most important long-run element in our foreign policy.

At the same time, foreign economic aid shares with commercial policy the distinction of being one of the most hotly debated foreign policy issues in the United States. The issue of foreign aid cannot, however, be as simply or as fully explained as commercial policies,

in terms of conflict of special economic interests. Even among those who have no special economic interest to serve or disserve by reason of foreign aid, there is plenty of room for legitimate differences of opinion and analysis. Nevertheless, there can be little doubt that in the process of foreign aid policy-making, the pressures of particular groups play a very significant role.

On economic grounds, the strongest and most vocal objections to foreign aid evoke the argument of cost and ability of the American economy to bear the burden. It is difficult to separate those who hold this position on the basis of assessment of the national economy as a whole, and those who are rather thinking in terms of their personal situation as taxpayers. It can, however, be stated as a matter of objective analysis that no foreign aid program thus far proposed could possibly cause, as frequently alleged, the collapse or bankruptcy of the American economy. In terms of our total production, \$5 billion or even \$10 billion a year in foreign aid represents an insignificant drain on the national economy.

In a period of high taxes and inflation, appeals for economy can rather easily gather support among large numbers of persons, without foreign aid as such playing more than the role of scape-

goat. The greatest opposition to foreign aid *per se* is largely concentrated in those segments of the public that are isolationist or neo-isolationist in political attitude and opposed to government spending. The clichés and sneer-phrases of the more rabid of these groups—aid is “money down the rat hole, milk for the Hottentots”—give some evidence that more than spontaneous and general public opinion is involved.

Penumbra of arguments

If the opposition to foreign aid has not succeeded in cutting off the flow completely, it has been able to reduce its amount and effectiveness. The pressures of special interests continue to operate after a given amount is appropriated for foreign aid. Thus, in the case of goods shipped out of the United States under military and economic aid programs, Congress has required that no less than 50 per cent of the tonnage be carried in American ships, unless shortage of space makes this impractical or unreasonably costly. Although the opposition to foreign aid is surrounded by a penumbra of arguments relating to the national defense, one may be permitted the speculation that perhaps more mundane and less-patriotic reasons are not entirely absent. In any event, it is a policy that directly contradicts the proclaimed

purposes and principles of our foreign policy.

A second example relates to that persistent problem of agricultural price-support programs—the disposal of huge surpluses of wheat, butter and other commodities held by the government in expensive storage. Disposal abroad generally runs into two kinds of difficulty. One is the necessity of not upsetting the export economies of friendly countries; the other is the loss entailed in selling the products at world prices usually lower than domestic prices. Both problems are circumvented, though somewhat clumsily, through the disguise of foreign aid.

The disposal problem was first brought into the foreign aid program through an amendment of the Mutual Security Act which provides that a minimum amount of the appropriations under the Act be used to purchase surplus agricultural commodities produced in the United States. It also authorized the President to enter into agreements with foreign countries for the sale of such commodities for local currencies. Local currencies thus acquired may be used to assist in development projects.

It would seem unfortunate to

tie the foreign aid program to the surplus disposal problem, however roundabout the alliance is. The impression given to other countries, no doubt in part justified, is that the United States is more interested in foreign aid as a device to help solve a domestic problem than as a genuine means for helping the underdeveloped countries to improve living standards.

In many areas, thus, our foreign policy is compromised by the pressures of special interest groups. The fact raises a serious dilemma. Democratic societies cannot preserve their status if special interest groups are denied the right to present their claims and petition for measures beneficial to them. On the other hand, democratic societies may not be able to survive in the modern world if their foreign policies are so eroded by special interests as to lose their efficacy as instruments in the service of the national interest. This is a familiar weakness of democracy that can be prevented from having disastrous effects only by a combination of intelligent interest and participation in public affairs by the general public, and vigorous political leadership, especially at the executive level. ■

Paper Work

SIXTY PER CENT of the world's paper production is consumed in the U.S. Two-thirds of total U. S. production goes into industrial and commercial uses; only one-third is used for writing and printing.



Everyday Economics

■ **INSTALLMENT** plan contracts may include extra charges that are worth investigating. An insurance policy fee is often included to provide for payment of the loan in case of death or disability. Some contracts include such insurance without additional charge. Investigation and handling fees, which constitute the cost of financing a loan are readily determined by multiplying the amount of each payment by the number of payments. Then add the down payment and subtract the cash price. If the difference is considerable, ask what additional fees have been added.

Looking at specialists



WHEN selecting an eye specialist it is important to understand the differences in three occupations. An *ophthalmologist* or *oculist* is a physician who specializes in diagnosis and treatment of eye defects and diseases. He performs surgery when necessary and prescribes

treatment, including glasses. An *optometrist* is a licensed nonmedical practitioner who measures refractive errors and eye muscle disturbances and in his treatment uses only exercises and glasses. An *optician* grinds and frames lenses prescribed by an oculist or optometrist, and fits the frames to the wearer.

South of the border



TOURISTS planning a trip to Mexico can avoid the heat and the rainy season by making their visit before early summer. During the month of February the tourist is assured of nearly perfect weather. To enter Mexico, an American citizen needs: (1) proof of citizenship; (2) a tourist card obtained at the border upon payment of a fee of \$3 in American currency (minors under 15 years are included in their parents' cards); (3) a certificate of smallpox vaccination dated within the last three years.

When leaving Mexico after a

visit of less than 12 days, the tourist may bring back, duty free, articles not exceeding \$200 in value. After a longer stay, the tourist is entitled to a \$500 exemption.

Too much tax?



UNDER Social Security legislation, employers automatically deduct Social Security tax on the first \$4,800 paid to each worker. A worker who has more than one employer and earns total wages of more than \$4,800 may claim the excess tax paid for him by his employers as credit on his income tax return for the next year.

Trademark tips



BUSINESSES wishing to obtain trademark rights for their products should preserve documents such as bills of lading, invoices, etc. The essential element in obtaining federal registration is proof of first use in *interstate* or *foreign* commerce. State registration is a matter of state legislation, and as legislation varies from one state to another it is safer to have the trademark registered by the federal government so that it is protected by fixed standards of infringement. If the product is intended for international commerce,

international registration should be obtained immediately. In some countries, registration can be obtained even without use of the mark. This means that unscrupulous foreign businessmen can obtain rights for products they do not produce and force the American business that wishes to export the product to pay a tribute to the registrant in the foreign country.

The bigger the better?

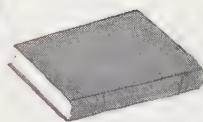


BUYING the "large economy size" can mean savings of up to 40 per cent on some items. However, some products deteriorate with age, especially those that come in cardboard boxes and tend to lump or cake when exposed to humidity. If the container is too large to handle, more is spilled than what is saved by buying the large size.

Frozen assets



THE Department of Agriculture reports that the average cost of feeding a family of four is increased by \$2 a day if heat-and-serve foods are selected in preference to those prepared at home. However, preparing foods at home takes an average four hours a day longer.—S.T.



The American Style. Edited by Elting E. Morison. 426 pp. New York: Harper & Bros. \$5.00.

•This book springs from the discovery by M.I.T.'s Center for International Studies that values are crucial to effective foreign policy formulation. The papers and discussions try to define the American style and to ask what it is designed for. Participants include J. Robert Oppenheimer, George F. Kennan, W. W. Rostow, Clyde Kluckhohn and David Riesman. Like many great arguments, their effort lets the reader come out by the same door wherein he went. Decrying conformity the scholars are in suffocating agreement on principle and seek to content their residual combativeness with semantic quibbles. Their amiable liberalism praises American pragmatism but concedes that something is missing. They fail to define it, however, as they search for new panaceas.

* * *

The Exploding Metropolis. Editors of *Fortune* magazine. 193 pp. New York: Doubleday. \$3.95.

•The accelerating middle-class exodus to suburban communities promises to make many American cities the exclusive home of the rich, the poor and the odd. Although these cities remain business or industrial

centers, their after-dark emptiness shows a declining cultural role. The authors maintain that many suburbanites still long for the amenities of urban living, but the inability of municipal governments to cope with housing, crime and traffic problems has driven them away. Despite obvious padding, this book will be of interest to those who believe a city should have a heart.

* * *

Marble Palace: the Supreme Court in American Life. John P. Frank. 302 pp. New York: Knopf. \$5.00.

•It is one of the achievements of the Supreme Court that it has had an intensely interesting life despite the dull legal quiddities with which it is so often concerned. Frank gives glimpses of the issues behind the details in the Court's development, but he is so much concerned with enlivening the material and communicating his bias that he fails to measure the real magnitudes. Aggressively liberal, Frank can show a fondness for those conservative justices whose ideas, strong central power, for example, have since entered the liberal doctrine. The author is as inconsistent as the Court, but the Court, dealing with the practical *non sequiturs* of government, has more excuse than the scholar.

The Serpent and the Tortoise. Edgar Faure. Translated by Lovett F. Edwards. 205 pp. New York: St. Martin's Press. \$4.50.

•Acknowledging that a five-week tour of Communist China cannot provide material for original observations, statesman Faure proposes to answer a single question: "Is there such a thing as Chinese communism and, if so, how does it differ from the Soviet brand?" M. Faure finds that while both versions have common aims and doctrines, Chinese communism is distinguished by peculiar methods, stages and institutions. One of these "peculiarly Chinese" institutions, according to Faure, is the mixed economy. While plausible in 1956, these observations have since been out-dated by the massive collectivizations in China and further "liberalizations" in the Soviet Union. The fact that the author is a man of keen insight does not increase the utility of an out-dated book in an atrocious translation.

* * *

Main Street, USSR. Irving R. Levine. 408 pp. New York: Doubleday. \$4.50.

•This rambling and disorganized account of life in the Soviet Union by NBC's Moscow correspondent is as superficial as a TV documentary—and as interesting. Mr. Levine takes an intelligent interest in almost every facet of Soviet life from education to the kind of funerals the state provides its subjects. Since he has seen a lot and is a good reporter, all this information makes for interesting reading. What Mr. Levine fails to do is to interpret his experiences. As a result, the reader is left with the distinct impression that

Main Street, USSR is different from *Main Street, USA*, but what makes the Russian model tick remains as much of a mystery as ever.

* * *

On War. Raymond Aron. New York: Doubleday. 163 pp. \$3.50.

•M. Aron combines a very French clarity of thought and expression with a very un-French political common sense. While deeply disturbed over the possibility of nuclear extermination, he refuses to follow the hysterical logic of pessimists who believe that human folly dictates that the possible is inevitable. A hardheaded historian with extensive journalistic experience, M. Aron does not advocate that the West destroy its stock of nuclear weapons. Nor does he believe that disarmament, by itself, is the road to eternal peace. He does believe that a high level of technological preparedness combined with a foreign policy that avoids all-or-none situations, may see us through some very difficult years.

* * *

Economic Planning in Underdeveloped Areas. Edward S. Mason. 87 pp. New York: Fordham University Press. \$2.50.

•For the general reader who wishes to inform himself about the world's number one economic problem, this slim little volume cannot be recommended too highly. Prof. Mason of the Harvard Business School ably defines the areas of knowledge and ignorance. Two-thirds of the world's population lives in "underdeveloped" economies—that is, countries with an annual per capita income of less than \$100 or with more than 60 per cent of the population living on agriculture. These countries have lower in-

comes and lower levels of literacy than most Western countries had even *before* they industrialized. Under these circumstances, we can hardly expect them to follow the Western pattern of economic development even if they wanted to. But while facing different problems than the West did, this does not mean that economic development necessarily depends on government intervention. The record shows that there is no correlation between the extent of government activity and the extent of economic progress. The problem, according to Prof. Mason, is what to do, not who should do it. And on that question, he concedes, we still have a lot to learn.

* * *

Who: Sixty Years of American Eminence. Cedric A. Larson. 376 pp. New York: McDowell, Oblensky. \$5.00.

•How *Who's Who in America* picks its biographees, detects hoaxes and determines what may be included in a biography makes for an exciting detective story. One case involves the biological impossibility of an elder brother who changed the date of his birth in three successive volumes until he was "younger" than a younger brother also listed in *Who's Who*. The average age for getting into *Who's Who* is on the rise, reflecting the increasing amount of time spent in acquiring an advanced specialized education. In a new country it is comparatively easy to achieve fame at an early age, but as the country matures, this becomes more difficult. Larson believes that the changing composition and structure of America's leadership accurately reflects changes in our society. However, as the final decision

of the editors determines "who is who," the reflection may be distorted.

* * *

The Businessman's Guide to Practical Politics. J. J. Wuerthner, Jr. 235 pp. Chicago: Henry Regnery Co. \$3.75.

•This is really two books. On the one hand, there is a useful guide to the businessman who wants to influence politicians. On the other hand, there is a doubtful assumption that the businessman does not already exert such influence.

* * *

Landmarks of Tomorrow. Peter F. Drucker. 270 pp. New York: Harper & Bros.

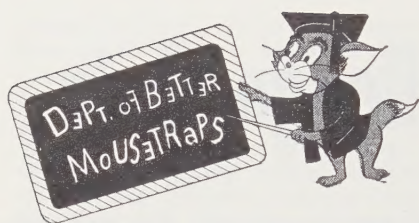
•Prof. Drucker, one of the more stimulating and imaginative of our writers on business, "thinks big" about life in what he calls the "post-modern" world. The *Weltanschauung* of the modern age, which has characterized Western civilization since the Renaissance, is already being rendered obsolete by technological and institutional changes whose revolutionary implications we do not yet fully comprehend. Prof. Drucker, who, for the last 10 years, has been telling businessmen just what they can expect, is optimistic. Our ability to "control" orderly economic growth, technological innovation, and the "sterile conflict between individual and society" will, he convincingly argues, increase. Whether this is a cause for optimism depends, in the final analysis, on one's confidence in the controllers. Remembering the history of modern man, some readers will finish this interesting sketch of the "postmodern" era in a less happy frame of mind than the author. ■



Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is good. Answers on page 77.

- (1) Thomas Jefferson freely extended diplomatic recognition to Latin American revolutionary regimes.
True ☐ False ☐
- (2) Foreign investment in less-developed countries tends to be capital intensive and technologically advanced.
True ☐ False ☐
- (3) Primary products fluctuate more widely in price than manufactured goods.
True ☐ False ☐
- (4) The primary aim of our propaganda efforts is information, not persuasion.
True ☐ False ☐
- (5) The United States and Russia are the most nearly self-sufficient economies in the world.
True ☐ False ☐
- (6) In 1955, the FOA was created to replace the ICA as dispenser of military aid.
True ☐ False ☐
- (7) The percentage of our gross national product invested abroad was the same in 1957 as in 1929.
True ☐ False ☐
- (8) Mutual Security legislation requires that American ships transport half of total foreign aid supplies.
True ☐ False ☐
- (9) In contrast to the immediate post-war period, economic aid comprises an increasing proportion of total foreign aid.
True ☐ False ☐
- (10) The U. S. suggested creation of the European Free Trade Area.
True ☐ False ☐
- (11) National Security expenditures amount to a quarter of our national product.
True ☐ False ☐
- (12) The State Department plans to adopt an over-all foreign policy for Africa.
True ☐ False ☐



Around the House: Instant butter-milk in powder form for baking and cooking . . . A screen room-divider that holds and displays over 100 LP record albums . . . Magnetic shower curtains that prevent blowing and keep water off the floor . . . A knife with a handle that is offset to permit cutting frozen food packages without having to rock the knife . . . A shower economizer that keeps water at a selected temperature and pressure when the shower has been turned off for a few minutes . . . An electric bed warmer that attaches to the mattress to let heat rise and warm the entire bed . . . A base that converts any tray or plate into a lazy susan, or that can be used as a turntable for word games and electric fans.

* * *

On the Desk: A console typewriter table that converts into a desk or table . . . A portable combination dictation, transcription and recording system that operates on flashlight batteries . . . A pen that has its own ink eraser and comes in four colors.

* * *

From the World of Industry: A neon sign with changeable letters . . . An ultraviolet-sensitive tube that detects fire, smoke and combustible vapors . . . A silent paging system designed for use in areas where production din drowns out conventional "pages" is a tiny radio which vibrates in the

pocket of the receiver to get his attention . . . A truck body that works like an elevator when loading cargo on any level from the ground up to 52 inches . . . A torch, less than two inches in diameter, that heats to 30,000° F. and melts the toughest materials known without being consumed itself . . . An airplane seat belt that winds on a reel and permits greater freedom of movement . . . An automatic dollar-bill changer that accepts wrinkled or torn bills but rejects bogus and foreign currency.

* * *

Personal Business: A pocket microscope that magnifies 50 times . . . musical gold cuff links . . . A pocket-size flashlight that never needs new batteries; it is recharged by plugging into a wall socket . . . A plastic eye that mimics normal eye motion . . . A de-liar for fishermen that weighs fish up to 23 pounds and measures up to 42 inches.

* * *

The Home Workman: No-bend nails that hold like screws . . . A self-propelled scaffolding unit that adjusts to heights up to 12 feet . . . A lightweight fiberglass ladder that can neither burn nor conduct electricity . . . A roller-type paint applicator for painting pipes.

* * *

Children's Corner: A talcum powder container with a soft brush attachment for easy baby powdering . . . A plastic medicine bottle cap that adults open easily but which presents obstacles to preschool children . . . A play pen with net sides that can be folded with toys inside . . . A plastic horse's head and saddle that converts a child's bike into a prancing steed.

* * *

Write to CHALLENGE magazine for additional information. ■